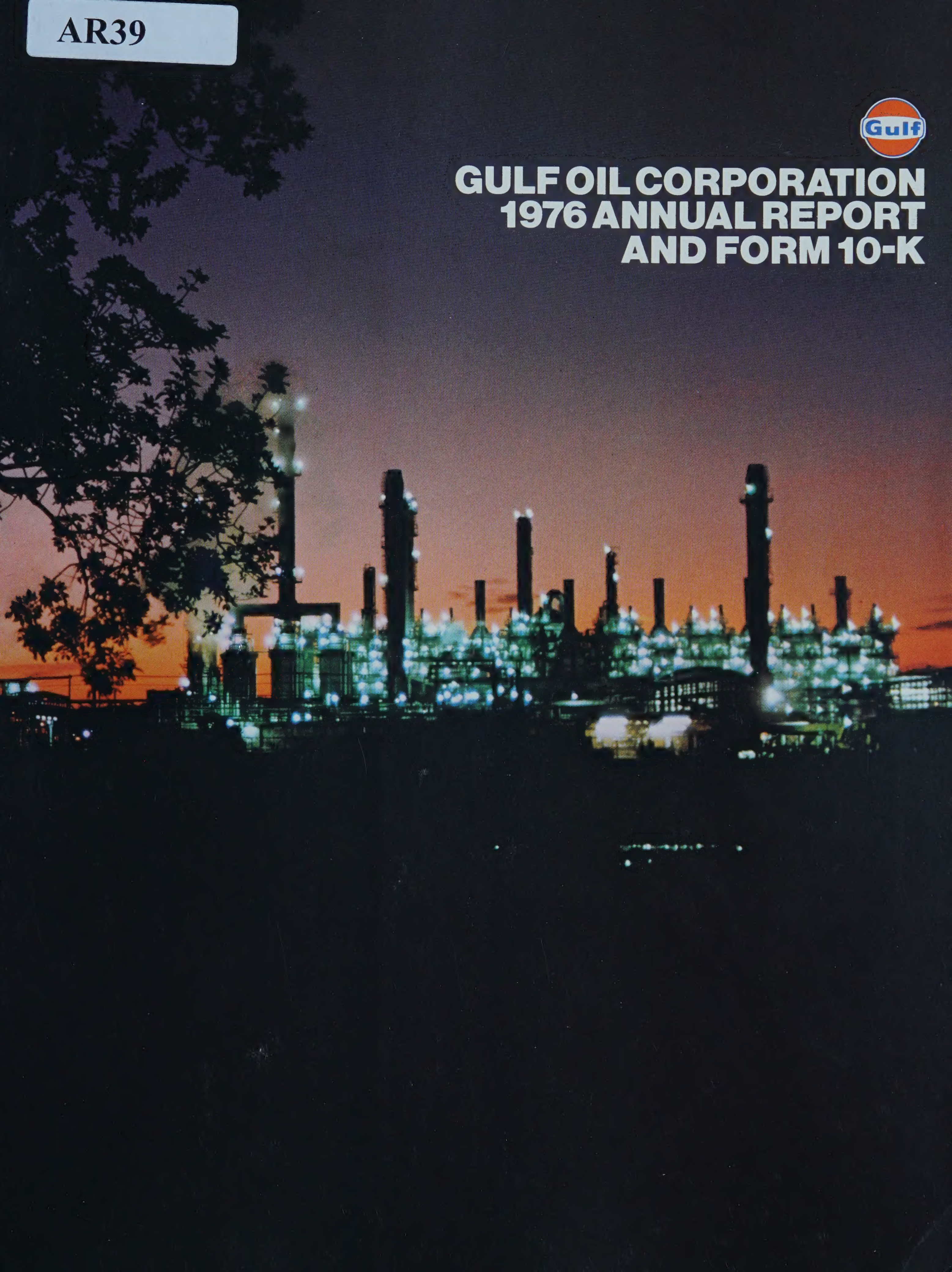
GULF OIL CORPORATION 1976 ANNUAL REPORT AND FORM 10-K



CONTENTS

Operations

Financial Information

Form 10-K Information

Annual Meeting

The Annual Meeting of Shareholders will be held on April 19, 1977 in The Music Hall, Houston, Texas. A formal notice of the meeting, proxy statement, form of proxy and request for admittance card will be sent to shareholders on or about March 18, 1977.

Cover

The Company's newest chemical facility, a two-billion-pound-a-year olefins plant, was being put in operation at Cedar Bayou, Texas, at year-end.

Photograph by Lois M. Weissflog, Gulf

Inside Cover

Internal communications received high priority during 1976 as Jerry McAfee, Chairman of the Board (center) and James E. Lee, President (right) participated in four taped TV interviews which were shown to employees throughout the Company. Questions submitted by employees were asked by narrator Robert Goralski of the Public Affairs Department in this "Executive Conversation."

THE YEAR IN BRIEF

Financial Highlights

	Millions of Dollars 1976	1975	% Increase (Decrease)
Total Revenues	**$18,403**	$16,042	15
Net Income			
United States	**440**	478	(8)
Worldwide	**816**	700	17
Capital and Exploration Expenditures			
United States	**1,188**	1,052	13
Worldwide	**1,742**	1,546	13
Total Assets	**13,449**	12,425	8
Cash and Marketable Securities	**1,989**	1,837	8
Long-Term Debt	**1,168**	1,294	(10)
Return on Average Shareholders' Equity	**12.2%**	11.2%	9
Return on Average Employed Capital	**10.4%**	9.6%	8

Per-Share Data

	1976	1975	% Increase (Decrease)
Net Income	**$ 4.19**	$ 3.60	16
Cash Dividends	**1.73**	1.70	2
Shareholders' Equity	**35.62**	33.17	7

Operating Highlights

	1976	1975	% Increase (Decrease)
Net Crude Oil and Condensate Produced, Including Participation and Long-Term Purchase Arrangements (daily average barrels)			
United States	**337,700**	360,600	(6)
Worldwide	**1,730,300**	1,952,100	(11)
Net Natural Gas Liquids Produced (daily average barrels)			
United States	**60,800**	64,900	(6)
Worldwide	**70,600**	88,000	(20)
Net Natural Gas Produced (thousand cubic feet per day)			
United States	**1,712,500**	1,958,400	(13)
Worldwide	**2,035,100**	2,433,400	(16)
Crude Oil Processed (daily average barrels)			
United States	**814,600**	749,600	9
Worldwide	**1,696,600**	1,700,900	—
Refined Products Sold (daily average barrels)			
United States	**828,600**	805,700	3
Worldwide	**1,609,300**	1,610,200	—
Chemicals Sold (thousands of tons)			
United States	**2,860**	2,450	17
Worldwide	**4,960**	4,130	20
Coal Mined (thousands of tons)	**7,900**	7,300	8
Uranium Produced (thousands of pounds)	**1,900**	370	—


Gulf

TO THE SHAREHOLDERS

We are proud to report that 1976 was a year of solid accomplishment for our Company.

- Earnings of $816 million, or $4.19 per share, were the second highest in our history and represented a 17-percent increase over 1975.
- The prolonged declines in our United States crude oil and natural gas production appeared to have been halted.
- Worldwide refining and marketing operations reached a more profitable level.
- One of the nation's largest petrochemical plants and a new plastics facility were added to our chemical operations as the first steps in a major expansion program.
- Full production was achieved at our first uranium mine and significant additions were made to our largest coal mine.
- Our corporatewide reorganization, which was initiated in the summer of 1975, was further consolidated allowing us to view each element of the Company on an individual, stand-alone basis.

The past few years have been painful ones for our Company, and Gulf entered 1976 on one of the most traumatic notes in its 75-year history. As your new management team, we set as Gulf's number one priority the restoration of our confidence in ourselves and our credibility with others. The first was necessary if we were to bring the full strength and abilities of our Company to bear in meeting the nation's energy needs. The second was essential if we were to be able to speak out forcefully and effectively on the nation's energy problems and the need for a comprehensive energy policy.

To accomplish these objectives, we made an extensive effort during 1976 to improve our Corporate communications—both internally and externally. A televised "Executive Conversation" program was initiated to bring our concerns and achievements to the attention of all employees. A "Write to Know" column was begun in the *Gulf Oilmanac,* our monthly employee magazine, giving employees an opportunity to question management on policy and programs. Our quarterly financial report to shareholders was expanded as has been this report in order to give as clear and comprehensive a picture of our operating and financial performance as possible.

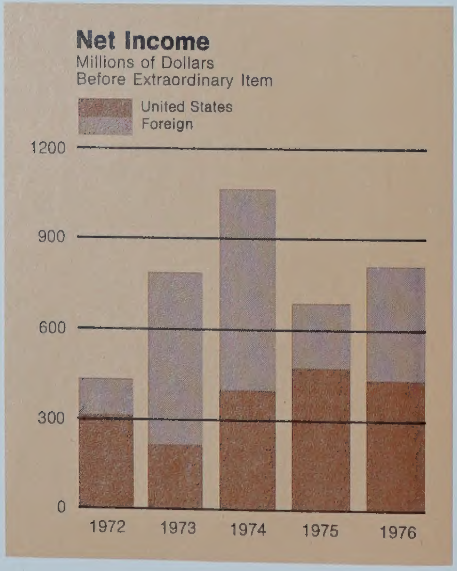
Through editorials in *The Orange Disc,* our shareholder publication, and letters to shareholders, retired employees, royalty owners, dealers and others, we sought to inform interested audiences of the gravity of energy legislation being considered by Congress. It was largely because of grass-roots pressure by such concerned citizens that the divestiture bill aimed at breaking up the major oil companies failed to reach a vote in the Senate.

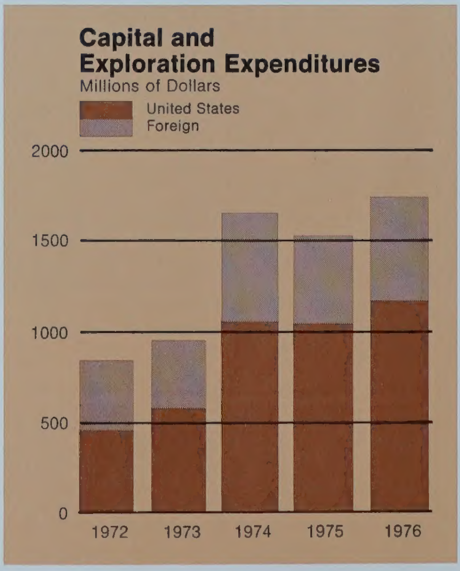
A new national advertising campaign, featuring Company employees, was launched early in 1977. Its theme, "Gulf People: Meeting the Challenge," is more than just an advertising slogan, for all of us at Gulf believe that we are doing a tough job to the best of our ability, and that in so doing we are contributing to the welfare of the nation.

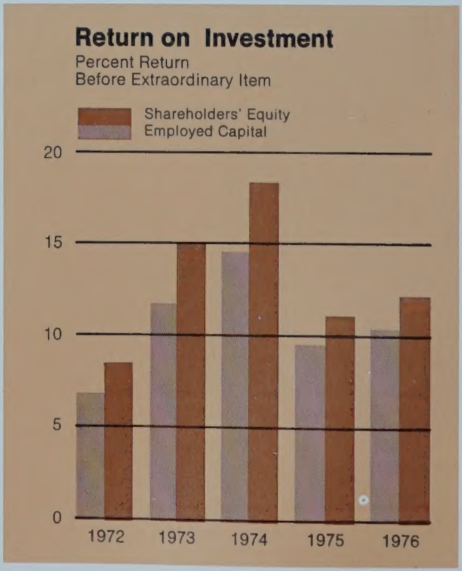
The bitterly cold weather that paralyzed the eastern half of the country as this report was being drafted dramatizes the precarious nature of our nation's energy supplies. In 1976, as in past years, the U.S. consumed more energy than it produced, and produced more oil and natural gas than it added to reserves by way of new discoveries. The continued depletion of these vital natural resources and the nation's growing dependence on foreign, government-controlled crude oil must be viewed with alarm. Last year, 42 percent of this country's oil needs and 22 percent of its total energy requirements were imported, resulting in a hemorrhage of almost $100 million a day in the U.S. balance of payments. An estimated 17 percent of natural gas production was used to generate electricity. Yet new coal mines were stalled by a moratorium on federal lease sales and nuclear power, once viewed as a near-term solution, continued to be mired in governmental red tape and unrealistic environmental demands.

The nation's energy needs were dealt a further setback in February 1977 when a federal district court in New York rescinded last year's lease sale off the mid-Atlantic seaboard. Gulf and others had expected to begin exploratory drilling in this promising frontier area later this spring.

The answer to the energy puzzle is going to require much sacrifice and much work. Everyone has a stake in its solution. Lower thermostats and speed limits, and better insulation and public transportation are clearly necessary, but are only part of the answer. Improved methods of allocating existing supplies and establishing priorities







among users and uses offers some hope, but at the expense of additional governmental control over our way of life. To maintain a vital and growing economy, the principal effort must be toward increasing energy supplies. And that means that the public must recognize the necessity of higher prices to pay for more exploration, deeper drilling and costly frontier development. Realistic petroleum prices—both at the wellhead and the gasoline pump—to recognize replacement cost are long overdue if the country is to take the energy problem seriously.

We at Gulf are doing our part. During 1976, we committed $2.1 billion and spent a record $1.74 billion on worldwide capital and exploration projects. This was more than twice what the Company earned during the year. The portion of our expenditures aimed at finding and developing new energy resources in the U.S. alone rose by 47 percent to $816 million—an amount which, by coincidence, exactly equaled worldwide earnings.

An even higher level of expenditures is programmed for 1977 and for the rest of this decade. Capital and exploration spending over this period will exceed $2 billion a year, with up to 75 percent devoted to the worldwide search for energy. Expansion of our chemical facilities will get the largest share of the remaining dollars. While Gulf intends to remain an international oil company, the focus of our capital spending is directed toward the U.S. and Canada. By building on what we know best, we will continue to be primarily an oil and gas company, but with growing positions in chemicals, coal, uranium and other related areas.

The underlying assumptions are: that substantial quantities of oil and gas remain to be found within the U.S. or on its Outer Continental Shelf; that we will continue to be successful in finding these deposits; and that government policy will allow us rewards commensurate with our risks and investments. Our long-term goal of becoming one of the largest coal and uranium suppliers in the U.S. also assumes that the nation's energy picture will increasingly become electricity-based and that we as an oil company will be allowed to participate in supplying these alternate energy sources.

Our goals, then, are incompatible with any forced divestiture legislation. We think that this is clearly an area where our interests and the nation's are identical. We do not believe that the public wants our industry to be broken up at a time when our size and strength are obviously needed to help meet the nation's growing energy requirements.

By the end of 1976, we were producing from six fields in the Gulf of Mexico discovered since 1972. Eight additional new fields are to be brought into production in 1977. Exploratory drilling will be conducted this year offshore California and in the Gulf of Alaska. Our first production from the North Sea should come in late in 1977.

The funds already invested in these projects and which will be required in the future lead us to characterize our financial performance in 1976 as gratifying, but not satisfying. Measured as a return on investment, earnings rose to 10.4 percent of employed capital and 12.2 percent of shareholders' equity from 9.6 percent and 11.2 percent on the respective 1975 scales. This is still well below the 14- to 15-percent returns on capital we feel are necessary to generate the future investment dollars we will need.

Nevertheless, it was significant that Gulf achieved an earnings level second only to the abnormally high earnings of 1974 in the first full year since the nationalization of our producing properties in Kuwait and Venezuela, and in a year in which our U.S. income tax provision nearly doubled. A more detailed discussion of 1976 earnings is given on page 22.

Two actions which occurred in the closing days of 1976 are likely to affect future profits, and therefore, deserve comment. First, after months of deteriorating relations with the government of Ecuador, we asked the government to buy out our producing and pipeline interests there. An agreement for a transfer of property was reached, effective December 31, 1976, but as of the date of this report payment had not been received. Secondly, the Organization of Petroleum Exporting Countries (OPEC) raised prices effective January 1, 1977, in a manner which placed much of our foreign crude oil at a disadvantage in the marketplace. The pricing decision was primarily a political one in the Middle East and must be settled by the governments of the producing countries. We believe that prices must and will seek an equilibrium in the market.

Legal action continued to receive much time and attention during 1976, but with some positive results. In November, a federal district court approved the settlement of the shareholder derivative suits concerning the past political contributions issue. While two appeals have been filed, we are confident that this torturous matter is now behind us. Equally significant, a federal appeals court in December granted our motion for stay of a Federal Power Commission (FPC) order on our gas supply contract with Texas Eastern Transmission Corporation. We believe that we have complied fully with our obligations under the contract and have taken every reasonable action possible to supply the required quantities of gas—and we intend to continue to do so. Other legal hurdles remain, but we are confident that our actions have been correct and honorable and that our positions will be upheld in the courts. Further information on this litigation is discussed on page 36.

We regret to report the death, on December 20 and at age 96, of Colonel J. Frank Drake, former president, chairman and director emeritus of Gulf, who played an historic role in the growth of the Company. Those of us who knew him will miss his wise counsel and business acumen.

In recognition of the progress our Company is making, your Directors increased the quarterly dividend to 45 cents a share in October. This was the third increase in as many years, and lifted the annual payout rate to $1.80 a share.

The achievements during the past year and the financial, human and physical resources we are bringing to bear on our objectives for 1977 give us confidence that Gulf will play a major role in meeting the nation's energy crisis, and that we and our shareholders will benefit from the opportunities at hand.

Respectfully submitted,

Jerry McAfee
Chairman of the Board

James E. Lee
President

February 23, 1977

PETROLEUM—EXPLORATION & PRODUCTION

United States

Gulf Energy & Minerals Company arrested a steep, four-year decline in natural gas production during 1976 and made marked progress toward leveling out a six-year decline in crude oil production.

During 1976, production of crude oil and condensate averaged 337,700 barrels per day and natural gas production was 1.71 billion cubic feet per day. While this represented declines of 6 and 13 percent, respectively, from the daily average rates of 1975 when Gulf still produced from significant West Texas term leases, crude oil production was essentially flat throughout 1976, and natural gas production turned up during the fourth quarter as new fields were brought on production. This success, which has required exploration and development expenditures of more than $2.5 billion over the past five years, is even more significant in view of the fact that industry production of these vital resources continues to decline.

The focus of the Company's exploration and production efforts has been in the Gulf of Mexico where Gulf has acquired an interest in 85 tracts since mid-1972. During 1976, three new fields were brought on production: Grand Isle 95, South Timbalier 37, and South Pass 62. By year-end, Gulf was producing from nine blocks in six fields acquired since 1972. New production from three older fields, South Timbalier 135 and 176 and West Delta 27, also was achieved during the year. At the end of 1976, these Gulf of Mexico properties were yielding a total net daily output of 14,200 barrels of oil and 133 million cubic feet of gas.

Production is expected in 1977 from eight additional new fields in the Gulf of Mexico: Vermilion 39, South Timbalier 35 and 163, West Cameron 197, 266, 333 and 409, and High Island 111. Also, production should be initiated from a newly installed platform in South Pass 61 where an earlier platform was destroyed by Hurricane Camille in 1969.

Important new production also has come from onshore areas such as the Kingdom (Abo Reef) field in West Texas, which Gulf discovered in April 1975. By the end of 1976, the Company was producing 4,600 barrels of oil a day from 54 new wells and Gulf plans 30 to 40 more wells for 1977. No dry holes have been drilled. This success confirms the Company's belief that untapped reservoirs exist in older producing areas.

Development activity on the Company's 117,000 acres in Webb and Zapata counties in South Texas continued with six rigs active at year-end, two on wildcat and four on development wells. Gulf's current net capacity from this area is 100 million cubic feet of gas per day.

Gulf has more than 700,000 net acres under lease in the promising new onshore area called the "Overthrust Belt," a 60-mile swath stretching 900 miles from the Canadian border to Southern Utah. In early 1977, important new gas discoveries had been made in the Overthrust Belt of Southwestern Wyoming, in Ward County, Texas, and Central and South Louisiana. A significant oil discovery also had been tested in Dunn County, North Dakota.

Through efforts such as these, Gulf will be adding new reserves and developing present reserves in order to maintain and hopefully increase oil and gas production over the balance of this decade. In support of this goal, a record $210 million was spent in 1976 for wildcat drilling and other exploration activities, excluding offshore lease payments. This represented a 49-percent increase over similar expenditures in 1975. For 1977, Gulf expects such spending to exceed $250 million.

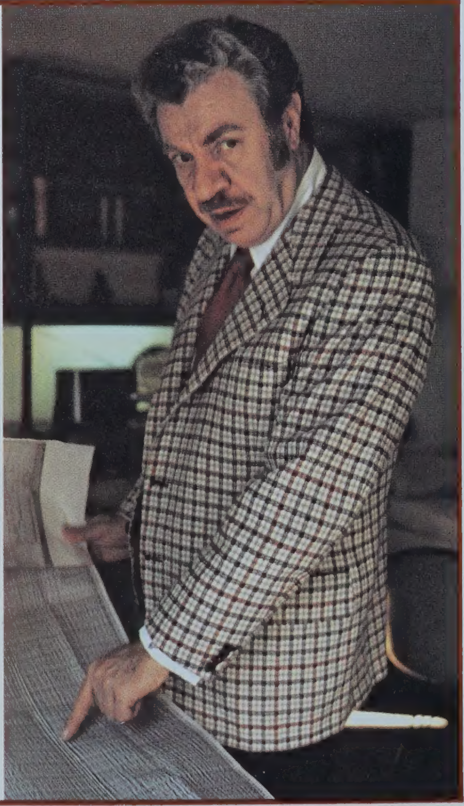
Increased emphasis will be placed on the search for new natural gas as a result of an FPC decision in July to substantially increase producers' prices on natural gas sold across state lines. The order set the price of gas produced from wells started after January 1, 1975 at $1.42 per thousand cubic feet; at 93 cents per thousand cubic feet from wells drilled in 1973 and 1974; and permitted the rollover to 52 cents from 29.5 cents per thousand cubic feet for gas from older fields on the termination of current contracts. While the FPC's action represents a major step forward in recognizing the higher cost of developing new energy, it falls short of bringing the price of gas to its true economic value. The decision is being challenged in the courts. Gulf believes the issue must ultimately be resolved by Congressional action to deregulate interstate gas rates.

At year-end, approximately 14 percent of Gulf's gas sales qualified for the new higher rates. An additional 27 percent was sold within the same state, and therefore was not regulated. During 1976, the Company realized an average price of 45 cents per thousand cubic feet on its natural gas sales compared with 35 cents per thousand in 1975.

Despite the fact that much of Gulf's newly discovered gas will be sold significantly below current market prices to fulfill a contract with Texas Eastern Transmission Corporation, the

"There is, in this country, a crisis in excellence. Too many people assume that it just comes—that you don't have to strive for it. When we began to evaluate rock structures, we did not look at seismic readings to find geological formations, which is the traditional way of analysis. We looked for changes in the physical properties of the rocks themselves due to fluid saturation. Our 'bright spot' technique, then, was a new way of looking at seismographic reflections. This practice of questioning accepted concepts is what research is all about. It means a high percentage of failure. This one worked. The result for Gulf is a better chance to find hydrocarbons. The result for me was the achievement of a goal even more elusive than petroleum—excellence."

—Georges Pardo, technical exploration manager, pioneered in the direct detection of crude oil through seismic methods. He is one of 4,200 men and women engaged in Gulf's U.S. exploration and production effort.



FPC's order will affect growing proportions of Gulf's natural gas production. Deliveries under the Texas Eastern contract averaged 362 million cubic feet per day in 1976 and are expected to reach the maximum daily contract volume of 625 million cubic feet per day in 1977.

Responding to the unprecedented demand for natural gas occasioned by the severe winter of 1976-77, Gulf initiated a review of all natural gas production and delivery operations and undertook whatever steps were possible to avert pipeline freeze-ups and curtailment of deliveries. Well workovers which would temporarily shut in production were deferred wherever possible, and 24-hour maintenance activities were initiated at compressor stations, both on and offshore. Gulf cooperated with the U.S. Geological Service and state regulatory agencies to maximize production and delivery of natural gas from fields it operates.

Crude oil prices also continued to be determined by federal regulation. Under a 1975 Act of Congress, the weighted average industry price of all domestic crude was set at $7.66 per barrel in February 1976, but was allowed to increase at about six cents per barrel per month on a 39-month schedule. The schedule was based upon production estimates of "old," or lower-tier, oil from properties developed before 1972, and "new," or upper-tier, oil from subsequent development. Upper-tier oil was priced higher than lower-tier oil. In June, the Federal Energy Administration (FEA) found that actual production and prices of upper-tier oil exceeded its estimates and that composite prices were rising too rapidly. Therefore, the agency froze oil prices at their June level of $5.15 per barrel for lower-tier oil and at $11.60 per barrel for upper-tier oil. At year-end, upper-tier oil prices were further rolled back to $11.40 per barrel and the freeze on lower-tier prices was continued through March 1977.

Under the FEA's definitions, 69 percent of Gulf-operated crude production was classified as lower-tier oil in 1976 compared with 81 percent in 1975. Gulf's average price of production rose to $7.39 per barrel in 1976 from $6.68 in 1975.

While these price restraints offer little encouragement to increase U.S. crude production, other rulings have been more beneficial. During 1976, the FEA deregulated the price of oil from stripper wells, which produce less than 10 barrels a day, and altered its definition of property to recognize individual reservoirs as separate properties in order to encourage increased development.

These two regulations resulted in a shift of about 13 percent of Gulf's production from lower- to upper-tier oil. As a result, Gulf-operated production during the last four months of 1976 was split 60 percent lower-tier and 40 percent upper-tier and stripper oil and the Company's average price was $8.05 per barrel. This should allow Gulf to bring back into production wells that had reached the end of their economic life and should have a positive effect on increasing reserves and production.

Gulf's net proved reserves of crude oil and natural gas are described in detail on pages 55 and 56 of Form 10-K.

During 1976, the Company participated in the drilling of 114 new field or new pool wildcats, 35 of which were successfully completed—17 as oil wells and 18 as gas. In total, Gulf had a full or part interest in 1,477 wells drilled during 1976, of which 1,170 were completed as oil wells and 169 as gas wells; the remainder were unsuccessful. This compares with 1,164 gross wells drilled in 1975, of which 1,048 were successful.

Gulf drilled its first rank wildcat late in the year on one of its wholly owned leases offshore Southern California which was acquired in December 1975. A second test well on another prospect will follow in 1977. The Company plans to drill a wildcat on the Oakridge Unit in the Santa Barbara Channel and at least one other in the San Pedro area offshore California this year.

Since the major new discoveries must come from the nation's frontier areas, Gulf was encouraged by the continuation of federal offshore lease sales and was an active participant in all of these sales during the past year. The Company spent $139 million in 1976 to acquire federal offshore acreage, almost double the $79 million spent in 1975.

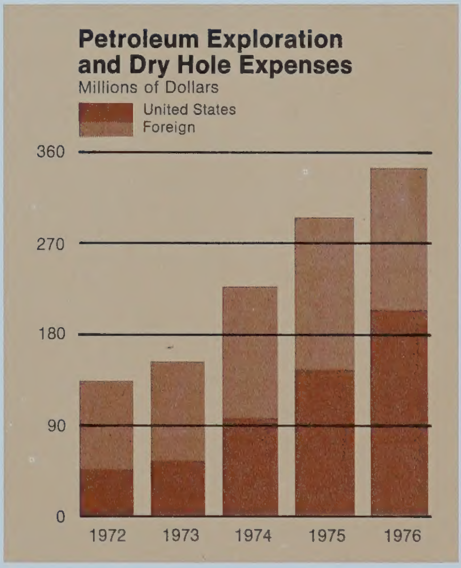
In the Louisiana offshore sales, Gulf spent $53 million in February for a 100-percent interest in South Timbalier Block 35, and has since drilled two discovery wells on it. In the November sale, Gulf spent $14 million for interests in two additional tracts.

In April, the Company acquired four leases on four separate prospects in the Gulf of Alaska for a total of $33 million. Gulf participated in the first wildcat in this frontier area, which proved to be a dry hole, and plans to evaluate the remaining prospects this year.

Gulf and its partners won three tracts in the Baltimore Canyon sale along the mid-Atlantic seaboard in August at a net cost of $19 million. Later, the Company acquired an interest in seven additional tracts there for $20 million. These purchases give Gulf positions on three major geologic structures. Until the cancellation of these leases by a federal court in February 1977, Gulf had expected to participate in four exploratory wells in 1977.

The Company has long recognized the extensive potential for enhanced recovery techniques and is evaluating current producing leases for possible application of enhanced recovery technology. During 1976, 14 tertiary recovery projects were under way yielding approximately 2,400 barrels of oil per day. Several more pilot projects and possibly a commercial-scale effort will be conducted in 1977. Because it is considerably more costly to produce oil by these methods, price decontrol would greatly encourage future production.

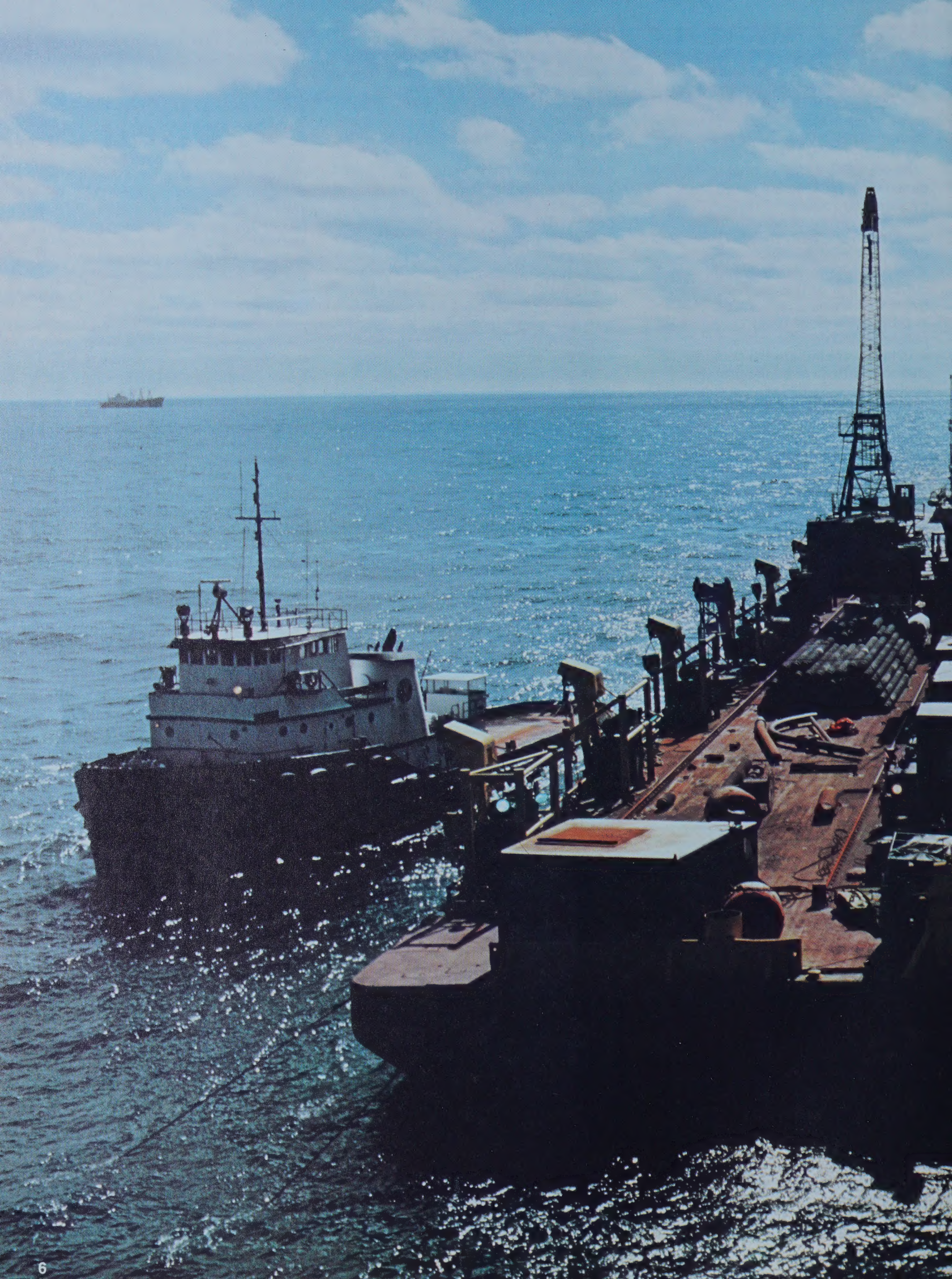
In December 1976, construction to expand the Warren Petroleum division's natural gas liquids complex on the Houston Ship Channel was begun. To be completed in mid-1978, the expansion will involve the construction of a third ship dock at Warren's marine terminal, a 20-inch pipeline and additional salt dome storage wells and fractionation capability at its Mont Belvieu, Texas, facility. The project will increase import capacity to more than 200,000 barrels of natural gas liquids per day.



International

Overseas, the petroleum industry faced a more stable operating climate in 1976 as world crude oil prices remained relatively level for the first time in three years. However, foreign producing countries exerted increased control over prices, production levels and crude mixes. And, in the fourth quarter of the year, foreign crude markets were artificially stimulated as inventories were accumulated in anticipation of a price increase by OPEC.

A meeting of OPEC members in the Arab sheikdom of Qatar in December



A pipe-laying barge connects a new natural gas field in the Gulf of Mexico.

resulted in an unprecedented two-tier price system for foreign crude. Saudi Arabia and the United Arab Emirates, which account for one-third of OPEC's aggregate reserves, raised prices five percent on January 1, 1977. The remaining 11 members, including those countries where Gulf has operations, voted for a 10.4-percent increase with another five-percent boost next July 1. While it is too early to determine whether the higher prices will hold, OPEC's pricing action has caused major disruptions in crude markets and production schedules and has once again imposed new inflationary pressure upon the world economy.

For several years, Gulf's most active area of petroleum development outside North America has been the North Sea where construction advanced in 1976 toward bringing the Company's first four fields—Thistle, Dunlin, Statfjord and Murchison—on early production.

In September, a towering 600-foot-high steel platform was towed to the Thistle field and is being anchored to the seabed. Drilling and production equipment is to be installed this summer. Thistle will be the first of Gulf's North Sea fields to come on production late in 1977.

Concrete platforms for the Dunlin and Statfjord fields are being completed in Norway for installation this summer. A contract to build a second concrete platform for the Statfjord field is expected to be awarded in the near future. Development work on the Murchison field was initiated in 1976.

During 1976, a unitization agreement was reached among all interests in the Statfjord field, which spans waters belonging to both the United Kingdom and Norway. This will allow the field to be tapped from three instead of four platforms and will substantially reduce total expenditures.

Gulf's share of production in the North Sea is expected to reach 70,000 barrels per day by 1983.

Early in 1976, Gulf and its operating partner, Continental Oil Company, signed the industry's first participation agreement with the U.K. government. The British National Oil Company's (BNOC) title interest in these North Sea properties was increased to 51 percent from 33⅓ percent without altering working or economic interests.

Gulf's 1976 exploration program in the North Sea saw 11 wildcats and one appraisal well completed in the U.K. sector, and one wildcat each in the German and Dutch sectors. The Company acquired three exploration blocks offshore Ireland and earned an interest in two additional tracts in U.K. waters through a farm-in arrangement.

An active exploration program in 13 countries overseas involved expenditures of $94 million in 1976 with almost $72 million of that spent in areas where Gulf does not have established production. Exploration expenditures for 1977 are expected to be approximately $140 million.

A production-sharing agreement leading to Gulf's first venture in Egypt was signed late in 1976. Under its terms, Gulf will explore two 1,200-square-kilometer blocks east of the Suez Canal.

During 1976, crude oil available to Gulf through equity, participation and long-term purchase agreements amounted to 1.3 million barrels per day from nine countries outside of North America. This represented a 13-percent decline from 1975 reflecting Gulf's first full year of operations under crude purchase agreements in both Kuwait and Venezuela. The Company's agreements in these countries provide only small fees. In Kuwait, the Company receives an effective discount of 15 cents per barrel, after payment of Kuwait taxes. However, Gulf benefited from the first full year of production in Zaire. A country-by-country tabulation of Gulf's production and purchases is given on page 45.

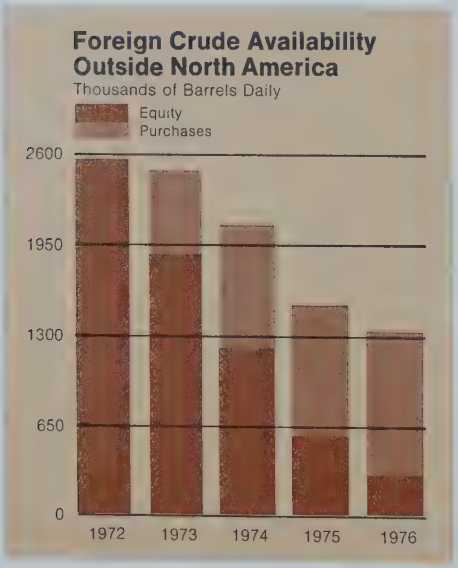
In December, Gulf and the government of Ecuador completed negotiations aimed at an orderly withdrawal of the Company from operations in Ecuador. The government issued a decree which authorized the national oil company, CEPE, to purchase, effective December 31, 1976, Gulf's 37½-percent interest in a producing concession and half interest in the Trans-Ecuadorian pipeline. Under the terms of a proposed agreement Gulf is to receive payment for its unamortized investment.

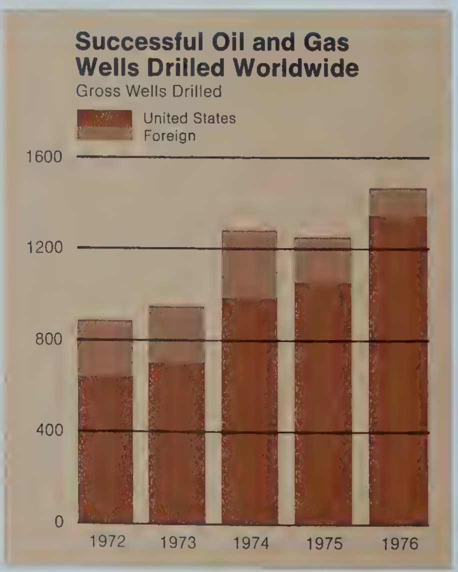
Operations in Angola, which were suspended in December 1975, resumed in late April 1976 following the abatement of hostilities there. The Company is currently operating under the same terms and at nearly the same production levels which prevailed before suspension.

In November, Gulf received payment from the Nigerian government covering its purchase, retroactive to 1974, of 55 percent of the Company's operating concession.

Service Companies

Two service companies which market Gulf's technology to government agencies and other private companies were meaningful contributors to 1976 earnings. Keydril Company expanded its operations as an international offshore drilling contractor by placing three new rigs in service. Its six rigs are currently working along the coasts of four continents. Global Energy Operations and Management Company, which provides technical expertise in exploration, production and gas liquids extraction, carried out contracts during 1976 in Nigeria, Iran, Kuwait, Burma, Bangladesh, India and Denmark. Contract negotiations are under way in four other countries.





PETROLEUM—REFINING & MARKETING

United States

Gulf Refining & Marketing Company became a meaningful contributor to Corporate profits in 1976 after operating at essentially a break-even level during 1975. While performance improved worldwide, the most significant increase in earnings came in the U.S.

Gulf, along with most of the U.S. industry, benefited from increased product demand and improvements in regulatory and import policies. Equally important in Gulf's turnaround, however, has been a change in operating philosophy which emphasizes profits over volume and a new management style of decentralized decision-making to allow more rapid response to changes in local marketing conditions.

Gulf's objective continues to be to provide customers with the best possible products and services—but only in those areas where the Company's refining, transportation and marketing system allows it to be strongly competitive.

Coupled with the growth of the U.S. economy, Gulf's sales of all refined products grew 2.8 percent during 1976 to 828,600 barrels per day, and gasoline sales increased 2.5 percent to a daily average of 479,600 barrels. Sales of unleaded gasoline accounted for 19 percent of total gasoline sales in 1976, compared with 12 percent in 1975.

Product prices remained relatively strong throughout 1976 and benefited from the decontrol of distillate and residual fuel oil prices. "Banked" costs incurred in prior years but unrecovered due to FEA regulations or market conditions were reduced during the year. Nevertheless, gasoline prices remained below federal ceilings at year-end. During 1976, Gulf's average sales price for all U.S. refined products increased to 37 cents per gallon from 34 cents in 1975, although only a few cents per gallon was profit to the Company.

Profits were further aided by the elimination of the government's Supplemental Import Fee, which cost $151 million in 1975. However, Gulf continued to be subject to the FEA's entitlements program which seeks to equalize crude oil costs at the refinery level. During 1976, Gulf was required to pay $214 million in entitlement fees bringing to $452 million the amount which the Company has been forced to pay other refiners for the right to refine its own crude since that program was initiated in late 1974.

Marketing in a 29-state area in the East, South and West, Gulf maintained its share of the gasoline market at approximately eight percent during 1976. However, a net reduction of 400 marginal stations reduced total retail outlets to 18,800 by year-end. A program of planned withdrawal from selected marginal locations also continues, and Gulf is seeking FEA approval to withdraw from the Northern California area where its Hercules Refinery was sold in February 1976.

While the Company relies primarily on a dedicated network of independent full-service dealers, the number of branded Company-operated, self-serve stations increased during 1976 to 790 from 640. Unbranded outlets operated or serviced by Gulf increased to 800 from 660. A marketing study completed last year shows that the self-serve market could be twice as large as it is, particularly in metropolitan areas where Gulf already has a significant market share. The acceptance by price-conscious customers of these stations and the favorable rate of return on these investments contributed to 1976's success.

Experiments with different marketing techniques such as the sales of convenience store items at self-serve stations showed considerable promise during 1976. One of these was an arrangement to combine self-service gasoline marketing with convenience stores operated by Munford, Inc., of Atlanta, at selected outlets throughout the South.

Mass merchandising of motor oil, tires, batteries, accessories and household products also increased during the year. Gulf began test marketing a new "Drain and Change" do-it-yourself motor oil kit through supermarkets and discount stores and encouraged dealers to adopt similar techniques to increase motor oil sales through traditional outlets.

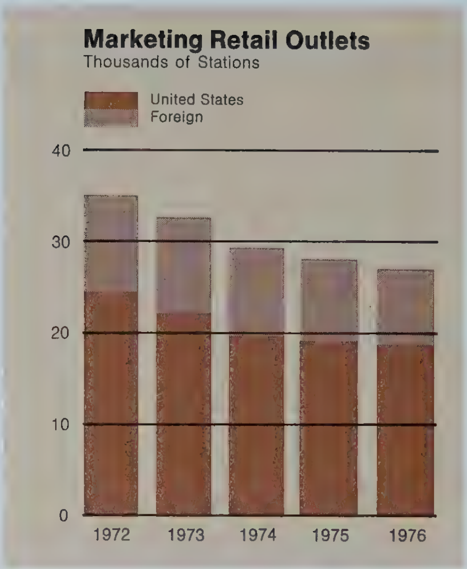
Reflecting the higher product demand, Gulf's U.S. refineries processed an average of 814,600 barrels of crude oil per day in 1976, operating at 92 percent of total rated capacity compared with 87 percent in 1975. Gasoline and naphtha accounted for more than 60 percent of Gulf's refined product output, middle distillates about 30 percent with the remainder No. 6 fuel oil, asphalt and other products.

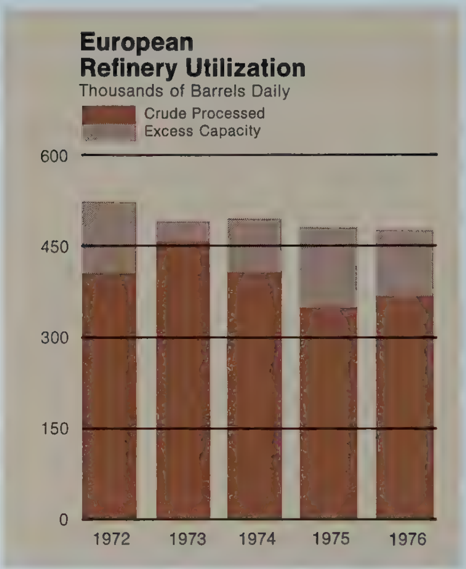
A program to improve the efficiency and increase the capacity of the Philadelphia Refinery was completed in September 1976, adding 29,900 barrels per day to its capacity. A similar project, adding 22,400 barrels per day at the Port Arthur Refinery, should be completed in the first half of 1977. At that time, Gulf will have a total refining capacity of 907,800 barrels per day, or about six percent of the U.S. total.

Gulf's refineries currently use 24 grades of crude oil from 13 foreign countries. Reliance on foreign crudes increased to 40 percent in 1976 compared with 33 percent in 1975. Import ratios are expected to increase at

"The Baltimore district represents the wheel that revolves around the hub of Washington, D.C. What we do here can be the focus of national attention. In a very real sense, my 293 employees are Gulf to the people in this very sensitive part of the country. We sell 590 million gallons of product a year. My responsibility is to keep the pieces in place, to develop people and utilize them properly—and to make a profit. This gives me a great deal of personal satisfaction. For one thing, I've shown that someone with a degree from a small Black college can get the job done. I hope I've made it a little easier for the next kid who comes along. But I'm not anyone's example or token. Believe me, I wouldn't be here if this district's operations didn't meet Gulf's standards."

—Frank Odom, district manager, is one of 17,200 men and women who contributed to the turnaround in profitability in Gulf's U.S. refining and marketing operations.





least until 1980. At present, some 88 percent of Gulf's crude imports come from West and North Africa.

In anticipation of increased imports, Gulf is participating in Seadock, Inc., a consortium of petroleum companies that plan to build a deep-water unloading terminal off the Texas Coast to accommodate tankers in excess of 200,000 deadweight tons. The project, which would substantially reduce the cost of importing oil, won preliminary approval from the U.S. Department of Transportation late last year and licensing terms are being evaluated.

The Environmental Protection Agency's (EPA) decision last year to enforce the gradual removal of most lead from gasoline by January 1979 means that the refining industry will be faced with heavy capital expenditures for refinery modifications that will provide no efficiencies, cost savings or competitive advantages. Gulf estimates that it will be required to spend some $60 million over the next four years to meet EPA requirements.

At the same time, as more and more automobiles are manufactured which require lead-free fuel, refiners are finding it necessary to increase octane levels to meet engine requirements. During 1976, Gulf increased the octane level of its unleaded Gulfcrest gasoline by 1.2 Research Octane Numbers to 92.2 RON. It is incumbent upon auto manufacturers to either produce an engine that can run efficiently at 91 RON, as they pledged, or to develop an emission system compatible with low levels of lead. A costly octane race is not in the best interests of the consumer, nor is it compatible with the conservation ethic.

In January 1977, Gulf signed a new two-year agreement with the Oil, Chemical and Atomic Workers Union covering 3,000 employees at four locations. The contract, which set the industry pattern in negotiations, calls for increases of approximately 18 percent in wages over the two years.

International

Demand for petroleum products overseas increased, particularly in the first half of 1976, in tandem with an improvement in the economies of most industrialized nations. However, the industry was still left with underutilized refining capacity which resulted in a weak price structure throughout the year.

In Europe, Gulf's refining and marketing operations ended 1976 in the black after incurring sizable losses in 1975. In addition to the industrywide improvements in operating climate, the principal factors for Gulf's turnaround were reduced inventories and an aggressive cost-reduction program that achieved substantial savings. Gulf's refined product sales price increased to $16 per barrel in 1976 from $15 per barrel in 1975.

Gulf's profit margins and those of the other international oil companies were squeezed in 1976 by pronounced currency fluctuations in many European countries. Gulf is paid principally in local currency for products refined from crude that must be paid for in U.S. dollars. Therefore, when the dollar strengthens or a foreign currency declines, revenues decrease until the governments allow offsetting price increases.

Gulf's limited availability of lower-priced OPEC crudes,under the new two-tier pricing system, will put the Company's foreign refineries at a competitive disadvantage as long as that pricing structure exists.

Nevertheless, Gulf intends to remain in the downstream business in Europe since it believes that business prospects should improve over the next 5 to 10 years.

Europe remains Gulf's most important overseas marketing area with more than 4,000 retail outlets in nine countries. Marketing penetration ranges from 2.4 percent in England to nearly 12 percent in the Scandinavian countries.

The four refineries Gulf operates in Europe realized a 69-percent capacity utilization last year, compared with 61 percent in 1975 and a European average utilization of 65 percent in 1976.

Gasoline accounts for 20 percent of Gulf's European product mix compared with 14 percent for the industry as a whole. This puts the Company in a good position to participate in an expected increase in gasoline demand in Europe in the future. In addition, Gulf is evaluating the feasibility of upgrading its refining capacity at Milford Haven, Wales, by installing a fluid catalytic cracker in partnership with another company to further its refinery output of lighter, more profitable products.

In Asia, where Gulf has joint ventures in Korea, Japan and Taiwan, downstream operations remained profitable and hold the potential for significant growth. Gulf is currently exploring with the national petroleum company of Taiwan the possibility of expanding its lube oil manufacturing capacity.

The economic outlook in Latin America improved during 1976 and the Company decided to retain its marketing operations in Guatemala and Panama. Also, the Company is considering improvements in its Puerto Rican refinery to upgrade product mix and increase on-island gasoline sales.

CANADIAN OPERATIONS

Gulf Canada's earnings declined six percent to $166 million (Canadian) in 1976, but in U.S. dollars, Gulf's 68.3-percent share of this subsidiary's earnings were essentially flat.

As Canada's second largest petroleum company, Gulf Canada experienced its share of the industry's problems over the past year—declines in both crude and natural gas production, excess refining capacity and a resulting weak price structure in the eastern provinces, periodic price freezes by governments and the continued control of overall product prices by the federal Anti-Inflation Board.

The creation of a new national energy company, Petro-Canada, with authority to participate with industry in new frontier petroleum projects, also gives ground for concern. Nevertheless, there were encouraging developments. At the federal level, a national energy strategy was introduced which recognizes the need for expanded exploration, improved prices and further energy conservation. Also an acceptable progressive royalty levy was included in regulations governing development of frontier lands. In many provinces, improvements were made in pricing, royalty and incentive plans that should stimulate development of oil and gas production in future years.

Gulf Canada plans to balance its exploration and development efforts between the near-term potential of the western provinces and the long-term potential of Canada's frontiers. But frontier activities will depend heavily upon government regulations that provide necessary economic incentives.

Within these parameters, Gulf Canada made significant advances in developing oil and gas reserves and alternate energy sources. In 1976, total capital and exploration expenditures were $323 million (Canadian), an increase of 47 percent over 1975. Such spending is expected to grow to $483 million in 1977 with some $97 million allocated to exploration activities.

Exploration and Production

During 1976, daily net production of crude oil and condensate averaged 71,000 barrels, a decrease of 11 percent from 1975, largely reflecting government restrictions on exports to the U.S. Under government regulations, the wellhead price for crude oil increased $1.05 a barrel to $9.05 a barrel in July. A substantial portion of this is paid to governments in royalties and taxes.

Daily net natural gas production averaged 323 million cubic feet, down from 369 million cubic feet per day in 1975. However, natural gas realizations improved substantially in line with government policy to equate gas and oil prices based on their heating value.

More than half of Gulf Canada's exploration spending in 1976 occurred in Western Canada. Fourteen discoveries were made in Alberta where Gulf Canada was especially active in the Beaverhill Lake Reef oil and gas area at Pass Creek. In British Columbia, an active seismic program defined a number of locations for drilling in 1977.

In the Mackenzie Delta of the far Northwest, where Gulf Canada holds a 75-percent interest in the Parsons Lake gas field, five new wells were added in 1976 to bring the total to 11 with flow rates from 9 to 35 million cubic feet per day. Also, a light oil discovery, Gulf Canada's first in the Arctic, flowed at rates of up to 2,800 barrels per day. Three wells were under way at year-end which will further delineate the gas reserves and help test the significance of the oil discovery.

Since reserves in the Parsons field are now estimated at 1.4 trillion cubic feet, there is ample support for the gas processing plant Gulf Canada is proposing to build with its 25-percent partner, Mobil Canada. Estimated reserves in the Delta, combined with the recoverable Alaskan reserves, are sufficient to justify the construction of the Arctic Gas Pipeline to carry gas to the U.S. and Southern Canada. Gulf Canada supports this line as the most efficient and lowest-cost method of bringing these vital new resources to market.

"There certainly are more agreeable places to search for oil and gas than the Canadian Arctic. The cold, the remoteness and the environmental protection measures make it incredibly expensive. A well on land in the Mackenzie Delta costs nearly $4 million. Last year Gulf Canada and its partners spent some $40 million to drill the first well from a drillship in the Beaufort Sea. But if the Arctic Gas Pipeline is approved, we can begin delivering much-needed gas by 1982. There's still much to do: more wells to drill and a gathering system and plant to build at a total cost of over $400 million. It's clearly the biggest challenge I've ever been a part of. But we have the people with the knowledge and the will to get the job done."

—John Hnatiuk, manager of frontier development for Gulf Canada, is chairman of the 31-member company Arctic Petroleum Operators' Association, which is developing the technology to tap Arctic reserves on an environmentally acceptable basis. John is one of Gulf Canada's 11,100 dedicated employees.

In the Arctic's Beaufort Sea, Gulf Canada and Gulf Oil, through a 50-50 joint venture, have a one-third interest in the first wildcat drilled in this hostile environment. The well reached 10,000 feet before drilling was suspended; further exploration is planned for 1977. Late in 1976, Gulf Canada became a 25-percent partner in the largest joint exploration venture to be conducted in the Arctic Islands. Gulf Canada will participate in an $80-million exploratory program over the next four to six years and will earn a nine-percent interest in 33 million acres.

Off the East Coast of Labrador, where Gulf and Gulf Canada share a strong position in 28 million acres, two drill ships and a semi-submersible rig tested five locations during the July-October drilling season. Only one well tested gas; the remainder were either suspended or abandoned.

Gulf
RESTAURANT

The Orange Disc signals service at Canmore, Alberta, between Calgary and Banff.

Gulf Canada participated in the industry's first test well off the West Coast of Greenland during 1976. Although it did not encounter hydrocarbons, further drilling is planned, probably in 1978. The Company has nearly a one-third interest in 1.3 million acres in this iceberg-infested area.

Tar Sands and Heavy Oil

The Syncrude project, a joint industry-government effort to tap the Athabasca tar sands of Alberta, reached 60 percent of completion during 1976. Gulf Canada has a 16.75-percent interest in this $2-billion project. Four 85-cubic-yard draglines are under field construction and two will be in operation when the mine is opened in mid-1977. Initial production of 30,000 barrels per day of synthetic crude oil is slated for mid-1978, and this is expected to rise to 100,000 barrels per day in the early 1980s and to full production of 125,000 barrels per day by 1985.

Gulf Canada also has interests in the heavy oil deposits of Northern Alberta where two pilot projects involving in situ recovery methods are under way. During 1977, the Company plans to step up its spending on these projects.

Refining and Marketing

Regional imbalances in the supply and demand for refined products severely depressed the profit contribution from Gulf Canada's refining and marketing operations in 1976. The Company's refineries ranged from 57-percent capacity utilization at Point Tupper in Nova Scotia to 100 percent of capacity at the two smaller refineries in British Columbia.

To grow and prosper in Canada's confused marketing environment, Gulf Canada seeks to concentrate its manufacturing and marketing skills on selected products in which it has an advantage. Lubricating oils and greases, which are now imported into Canada in large quantities, are such areas. The Company's sales of these products increased 12 percent during 1976.

A $180-million expansion of lubricating oil facilities at the Clarkson, Ontario, refinery will quadruple lubricating oil capacity to two million barrels per year by late 1978 enabling Gulf to meet most of Canada's shortfall of this important and profitable product.

Early in 1976, Gulf Canada introduced a new low-cost design, medium-volume, self-serve station and by year-end had 32 such outlets in service or under construction. Coupled with the closing of marginal, low-volume stations, Gulf Canada had 3,900 stations at the end of 1976, compared with 4,400 a year earlier. While the Company seeks to adapt its marketing outlets to meet the changing preferences of its customers, the majority of stations continue to be full-service, dealer-operated outlets.

Transportation

The Gulf Gatineau, the first of two 68,000-barrel, ice-strengthened tankers for product service in the Great Lakes and along the East Coast, was christened in July and is in service. Its sister ship, the Gulf Mackenzie, was christened in December and entered service in early 1977. The two $10-million ships will lessen Gulf Canada's dependence on costly charters for product shipments.

CHEMICALS

Gulf's chemical operations, conducted primarily by Gulf Oil Chemicals Company, earned $148 million in 1976, an increase of 76 percent over 1975, and worldwide chemical sales passed the $1-billion mark for the first time.

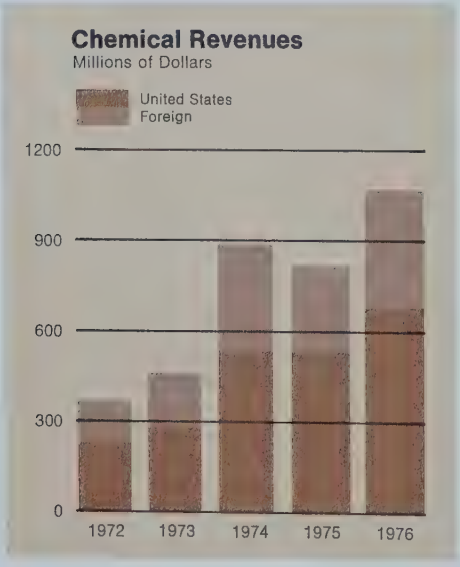
To put this performance in perspective, Gulf first entered the chemical business in 1953 and as recently as 1972 the Company's chemical sales amounted to only $363 million and the business operated at a loss.

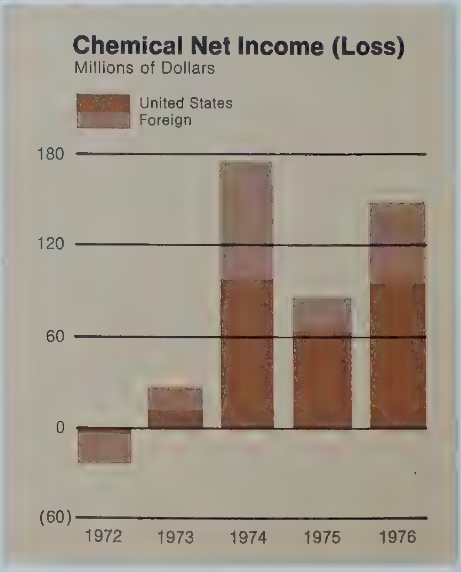
Despite the economic pause noted in most industrialized countries in the latter half, 1976 was essentially a strong year for chemical manufacturers. European operations improved significantly and accounted for nearly half of the growth in Gulf's chemical earnings. U.S. earnings benefited by investment tax credits of $40 million.

Gulf is embarked on a major expansion program involving capital expenditures of $150 million in 1976 and $212 million in 1975. Over the next five years, the Company expects to spend an additional $1.2 billion to expand and extend its current petrochemicals and plastics businesses, to selectively upgrade its product mix and to broaden its product and customer base by adding more proprietary, but less hydrocarbon-dependent chemical products.

This program plus Gulf's assured feedstock availability, places the Company in an excellent position to participate in the expected long-term growth of the chemical industry. As the economies of the industrialized world grow, as new markets open in the developing countries and as plastics continue to replace traditional materials such as wood, glass and steel, chemical demand is expected to exceed real economic growth by as much as 50 percent.

Approximately two-thirds of Gulf's chemical revenues is derived from petrochemicals—ethylene, propylene, benzene, cyclohexane and styrene. These are large volume, commodity-type chemicals sold to major customers that flow into such essential end-use markets as paints, antifreeze, synthetic fibers, toiletries and building materials. Plastics, principally high- and low-density polyethylene





used for packaging, pipe and housewares, accounted for about 18 percent of chemical revenues. The remaining revenues came from a variety of specialty chemicals including crop-protection products, explosives, carbon products and adhesives.

United States Operations

The U.S. is Gulf's most important market accounting for 63 percent of 1976 chemical sales and profits. The continuing importance of this market is underscored by the major construction projects completed during 1976 or which will come on stream in coming years.

The Company is bringing on line at Cedar Bayou, Texas, an olefins plant which adds 1.2 billion pounds of annual ethylene capacity to the Gulf system. This, with in-place capacity from three other U.S. plants gives Gulf just under three billion pounds of annual capacity, or about 10 percent of the industry total.

The Company uses about half of its ethylene internally in the production of plastics and alpha olefins. The rest is sold to other manufacturers as the raw material for polyethylene, vinyl chloride, vinyl acetate, tetraethyl lead and a variety of other products. The new capacity assures Gulf's self-sufficiency in this important chemicals building block.

The new facility also adds about 800 million pounds of annual capacity for other olefins, primarily polymer-grade propylene for plastics manufacture, and makes Gulf one of the largest aromatic producers in the country. With the Cedar Bayou addition and an approved project at Port Arthur, Texas, Gulf's total U.S. capacity in benzene will reach about 200 million gallons annually in 1979.

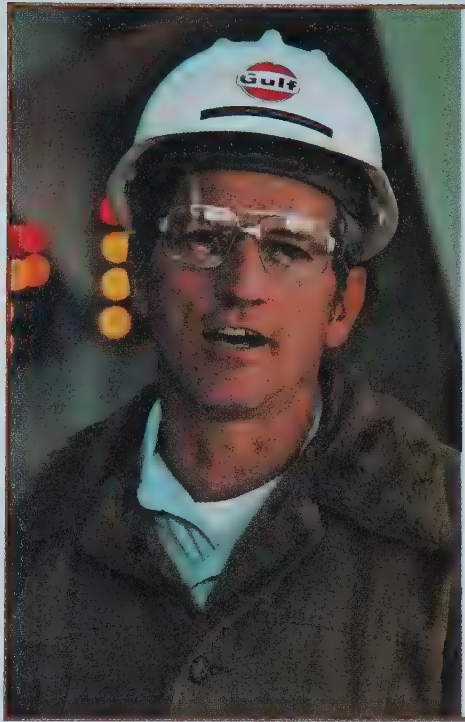
The Company uses most of its benzene production internally and is the world's largest single benzene consumer, upgrading the product for sale as cumene, cyclohexane or styrene monomer. Cyclohexane and cumene are primarily used as raw material for nylon fibers and phenol, while styrene monomer is a base material for many plastics and synthetic rubber. Gulf is the world's largest merchant producer of cumene with production capacity of 830 million pounds annually. U.S. production capacity also includes 500 million pounds of styrene monomer and 33 million gallons of cyclohexane. A program to expand capacity for these aromatic derivatives was launched in 1976.

A low-density polyethylene plastics plant was brought on stream at Cedar Bayou late in the year. Its output of 285 million pounds a year brings the Company's total LDPE capacity to 850 million pounds annually. This amounts to about 12 percent of the nation's LDPE capacity and makes Gulf the third largest producer in the U.S.

Expansion of a high-density polyethylene plant at Orange, Texas, was begun in 1976. When the facility comes on stream in the first quarter of 1978, it will add 240 million pounds to annual capacity bringing the total to 455 million pounds.

Construction also began during 1976 on a large polypropylene plant at Cedar Bayou, marking Gulf's entry into this important, fast-growing plastic. The plant will have a capacity of 400 million pounds a year and will be completed in mid-1978.

Gulf is among the largest explosives producers in the U.S. In order to increase self-sufficiency in nitrogen, which is used in the manufacture of explosives, the Company obtained a 25-percent partnership interest in 1976 in the newly formed Oklahoma Nitrogen Company, with facilities under construction at Woodward, Oklahoma.



"This new ethylene plant has three times the capacity of our original unit and uses a liquid instead of a gas feedstock to yield more products. Many people don't realize what goes into making the products they use every day—like plastics or synthetic rubber made from ethylene. Who knows what we'll make from ethylene in the future? If people were to see this plant in action I know they would be just as excited as I am. Something new happens every day. Minor problems come up, and we solve them. Sure, ethylene is a versatile product, but what you really ought to see is how versatile our employees are."

—Charley Lenderman, operations supervisor, at Gulf's largest and newest chemical plant at Cedar Bayou, Texas, is one of 2,200 men and women contributing to the growth of Gulf's U.S. chemical operations.

Canadian Operations

The chemical operations of Gulf Canada accounted for 12 percent of total chemical sales in 1976. This represented a modest improvement over 1975's performance, reflecting increased production and sales of olefins from the Varennes, Quebec, plant which was expanded in 1975.

Overseas Operations

Gulf's overseas operations contributed strongly to the overall chemical performance in 1976, accounting for 25 percent of sales and 32 percent of profits. European operations recorded particular improvement as economic activity advanced from 1975's recessionary level.

While European demand showed signs of weakness at year-end Gulf continues to view the Continent as a promising area of growth. Efforts to extend the Company's polyolefin and plastics capabilities in Europe will receive attention during 1977.

During December, Gulf joined local interests to become a 35-percent participant in the newly formed Asia Polymer Corporation, which will manufacture low-density polyethylene in Taiwan.

TRADING & TRANSPORTATION

With reduced equity crude from such traditional concessionary areas as Kuwait, Iran, Venezuela and Nigeria, Gulf Trading & Transportation Company has increasingly adopted a trading posture—buying, selling and exchanging crude oil—primarily to meet the Company's specific refinery requirements.

During 1976, Gulf handled almost two million barrels of foreign crude a day, with 36 percent, or about 700,000 barrels a day, coming from countries in which the Company has never held production rights.

Some 40 percent of Gulf's worldwide refinery runs were met last year with crudes purchased from nontraditional sources, and sales of the Company's heavier, high-sulfur Middle East crudes were aided by packaging them with lighter acquired crudes. This trading ability was further tested in the first quarter of 1977 as Gulf and the world crude market attempted to adjust to the unsettling two-tier price structure resulting from disagreements among OPEC.

New markets for crude sales were developed in the U.S. and Europe during the year, and in January 1977, Gulf opened an office in Vienna to develop new trading opportunities in Eastern Europe.

During 1976, the Company joined the Sharjah National Oil Company in opening a lubricants blending plant in that Middle Eastern country. Lubricants distributors were acquired in seven additional countries, mostly in the developing world. A major sales effort also was pursued in the competitive aviation fuels and marine bunker markets. New jet fueling facilities were added at the Zurich and Copenhagen airports.

The world tanker market continued to be severely depressed over the past year with about 25 percent of the world fleet in surplus. By slow steaming, however, Gulf was able to keep its fleet essentially in balance throughout the year with no major changes in total tonnage. Its foreign flag fleet consisted of 62 owned or long-term chartered tankers representing a total of 7.8 million deadweight tons. Its U.S. flag fleet was composed of 14 vessels totaling 407,000 deadweight tons. In all, Gulf's fleet consisted of 76 tankers totaling 8.2 million deadweight tons, or more than three percent of the world fleet.

During the year, the Company put into service a 230,000-deadweight-ton tanker, the last foreign flag vessel from its 1969 building program. Two 90,000-deadweight-ton vessels were acquired in December 1976 and January 1977 to service Gulf refineries in the U.S. A 286,000-deadweight-ton charter expired and six obsolete vessels in the 18,000- to 45,000-deadweight-ton class were sold. In 1977, Gulf will take delivery of two U.S. flag vessels of 265,000 deadweight tons each.

Gulf's foreign flag owned and controlled fleet carried 339 billion loaded ton miles of crude oil during 1976. This equaled 95 percent of the Company's foreign marine transportation requirements; the remainder was handled by spot charters.

As part of its ongoing program of tanker and terminal safety, Gulf completed in 1976 a highly acclaimed series of seminars—called "Bad Day at Bunker Point"—designed to sensitize and educate terminal managers and ship officers to the seriousness of oil pollution. Some 700 people have participated in these programs since they were initiated in 1975. During the past year, Gulf began developing a multilanguage, video-taped training program to enhance the safety awareness of its tanker crews throughout the world. On January 26, 1977, Gulf launched the *Bay Skimmer,* the largest oil-recovery vessel ever built in the U.S. It will be delivered later this year to the Company's terminal in Bantry Bay, Ireland, where it will be available in the event of an emergency.

As part of its marine diversification program, Gulf became a 75-percent partner in the American Heavy Lift Shipping Company, formed last November. This company will build two U.S. flag vessels of 3,000 tons each. Capable of handling single-cargo pieces weighing up to 1,000 tons each, these will be the first such vessels to fly the U.S. flag.

"A little over a year ago, we launched a drive to acquire crude oil from producing countries where Gulf had never operated before. We did so in part because our production in Kuwait and Venezuela had been nationalized. But, we diversified for another reason as well—to ensure the availability of new crude grades that are needed by the Gulf system. Today, our crude portfolio consists of 43 different grades from 20 foreign countries, compared with eight grades from six countries prior to 1973. There are some who say that the international oil company has no future in today's world. I'm not one of them."

—Ev Santamarina, general manager of crude sales and acquisitions, opened Gulf's Middle East office in Bahrain in 1976 and is one of 2,300 employees involved in trading and transportation activities outside the U.S.

Tankers Owned, Leased and Long-Term Chartered

	1976	1975
Number of Tankers		
Up to 50,000 Deadweight Tons	33	39
50,001 to 130,000 DWT	25	21
130,001 to 250,000 DWT	4	3
Over 250,000 DWT	14	15
	76	78
Thousands of Deadweight Tons		
Owned and Leased	4,783	4,655
Long-Term Chartered	3,385	3,487
	8,168	8,142

MINERALS

While Gulf Mineral Resources Company increased production of both coal and uranium in 1976, the Company's principal thrust was toward developing its extensive North American reserves to support substantially higher levels of production in the future. As a result, minerals losses narrowed considerably to $5 million from $26 million in 1975, and spending for coal, uranium and oil shale exploration and development projects grew to $91 million from $80 million a year earlier.

Inherently long lead times and tremendous investments are required to bring these alternate energy sources into production. Nevertheless, such efforts must be undertaken if the nation's energy needs are to be met in coming decades when the pressure on hydrocarbon fuel supplies will be most severe. Over the next five years, Gulf will be spending some $650 million to double its coal production to 16 million tons a year and to complete the largest and deepest uranium mine in the U.S.

Although governmental restrictions and environmental demands continue to inhibit the growth of coal and nuclear energy, 1976 brought some encouraging signs of public awareness and support. For instance, when the issue of delaying nuclear power plant construction was placed before the voters in referendums in seven states last year, the proposals were soundly defeated.

Coal

Coal production increased eight percent to 7.9 million tons in 1976. Operating profits of The Pittsburg & Midway Coal Mining Co. improved by approximately 25 percent, despite a softening in coal prices.

Pittsburg & Midway has bituminous coal production in Kentucky, Kansas, Missouri, Colorado and New Mexico. Some 80 percent of this coal comes from surface mines and is sold to electric utilities in nine states.

Most of the increase in 1976 coal production came from the McKinley Mine in New Mexico where a $100-million expansion program is under way. The first of four 55-cubic-yard draglines, capable of removing 82 tons of overburden in each bucket load, went into service in 1976. Another dragline, being assembled at the mine site, will be put in service in 1977. When all four units are in operation and the expansion is completed in 1979, McKinley's annual capacity will be increased to five million tons from its present one million tons.

Extensive handling, trainloading and support facilities were also installed last year which enable the McKinley complex to load a 100-car train in about three hours.

In Western Kentucky, Gulf has two mines in various stages of planning and construction. These are scheduled to come on stream in 1978 and 1979 to replace existing mines now in their final production stages.

Late in 1976, Pittsburg & Midway acquired a large acreage position in Western Pennsylvania where the Pittsburgh seam has been mined successfully for years. This gives Gulf an opportunity to expand marketing into an area of traditionally heavy coal use.

The Company expects to bring a major holding in the Powder River Basin of Wyoming into production in the early 1980s with ultimate capacity reaching 10 million tons per year.

Gulf is an industry leader in land reclamation, and in 1976 spent $4.7 million compared with $3.3 million in 1975 to reclaim its surface-mined lands and to develop more efficient reclamation techniques. The Company is working with the U.S. Bureau of Mines to develop innovative reclamation technology, which will be made available to the rest of industry. Progress was also made during 1976 in developing new methods of reseeding reclaimed land and in developing the best types of grazing grass for various soils.

Uranium

Full production was achieved during the third quarter of 1976 at the Rabbit Lake uranium mine and mill complex in Saskatchewan, Canada. Gulf's share of production last year was 1.9 million pounds of yellowcake compared with an output of 370,000 pounds in 1975. Gulf's share of production should increase to 2.3 million pounds in 1977. The majority of the Rabbit Lake reserves has been committed for sale, mostly to European utilities.

Development work at the Mt. Taylor, New Mexico, uranium mine continued with the service and production shafts reaching 1,300 feet and 900 feet, respectively. Although some technological problems were encountered as the shafts penetrated underground water tables, these appear to have been resolved and the target depth of 3,500 feet should be reached by 1979. When in full production, Mt. Taylor is expected to be the largest and deepest uranium mine in the U.S. with estimated reserves exceeding 100 million pounds. These reserves will not be committed for sale until production parameters have been established. Total investment in this project when completed in the early 1980s is expected to be about $400 million.

Gulf's first U.S. uranium production will come from the small, shallow Mariano Mine in New Mexico where shaft sinking began last year and production is scheduled to begin late

"I've worked for Pittsburg & Midway for 30 years—started as a maintenance man. Bringing this new mine on stream was what I've been working toward all my life. You learn all you can, and when the time comes, you're ready. We're on Navajo lands here and our goal is to have 70 percent Navajo employees. In the beginning, they weren't familiar with our equipment, but that's changed. At first, we hoped to load a 100-ton railroad car every two minutes. We're already down to one minute and 40 seconds. We're going to have to go even faster to meet production goals, and we'll do it, too."

—Paul Bowman, plant foreman, was project coordinator in developing Gulf's largest coal mine, the McKinley Mine in New Mexico. There are 1,600 employees like Paul in Gulf's U.S. minerals activity.

Utility customers receive a million tons of coal a year from the McKinley Mine north of Gallup, New Mexico.

in 1977. Most of the 3.5 million pounds of yellowcake reserves from this mine have been committed to a U.S. utility.

Gulf has a majority interest in a third ore deposit in New Mexico at West Largo where preliminary engineering and design work are under way. Production is expected in the early 1980s.

Uranium exploration activities are continuing both in the U.S. and in Canada with the Company expecting to spend from $15 to $20 million per year over the next five years for uranium exploration and acquisition of properties.

Oil Shale

Through 1976, Gulf had spent more than $78 million in lease bonus payments and development costs on the Colorado oil shale tract it jointly owns with Standard Oil Company (Indiana). Unresolved issues involving economic, conservation and environmental problems led a number of holders of federal oil shale leases, including Gulf, to request a suspension of activities in 1976. The U.S. Department of the Interior granted the Company a one-year lease suspension, beginning September 1. However, the decision is being challenged in the courts by various environmental groups. Gulf is seeking federal participation in a demonstration project and is investigating alternatives that might make oil shale extraction economical.

Synthetic Fuels

The government-financed Solvent Refined Coal pilot plant at Fort Lewis, Washington, has produced 3,000 tons of an environmentally acceptable low-sulfur solid fuel which will be combustion tested at a commercial power plant in 1977. An advanced SRC process to produce a low-sulfur liquid fuel also will be tested at the Fort Lewis plant in 1977.

Gulf is seeking additional governmental support to build a 6,000-ton-per-day demonstration plant. Preliminary designs have been completed for such a plant which could be built for $400 million at today's costs.

OTHER ACTIVITIES

Research and Environmental Concerns

Gulf Science & Technology Company, as Gulf's principal research arm, made substantial progress along several technological fronts in 1976, and was assigned the additional responsibility for overall coordination and technical support of the Company's pollution control efforts.

Gulf's worldwide expenditures to comply with environmental regulations have doubled in the past three years, reaching $195 million in 1976. Nearly one-third of these expenditures was for new equipment while the remainder was the cost of operating and maintaining existing pollution control facilities. Almost half of the total was spent at refinery locations, with expenditures for water pollution control exceeding those for reducing air pollution. These costs are expected to increase significantly as anticipated legislative and regulatory changes go into effect.

Coordinating the pollution control activities of all the operating elements allows Gulf to use the most cost-effective technology wherever it is needed; to anticipate future pollution control requirements; and to adopt knowledgeable environmental positions before regulatory bodies that strike a balance between environmental technology and public concern.

Among the technical support projects being developed for various Gulf facilities are programs to more accurately monitor air contaminants; cost-effective treatment methods to control water pollution; and programs to determine allowable sulfur concentrations in liquid fuels which are replacing natural gas in many industrial boilers and process heaters.

In support of the Company's exploration efforts, Gulf last year began installation of an elaborate computer processor to use data from the government's program of satellite earth photographs (LANDSAT) to help identify potential hydrocarbon-bearing geological formations.

Another important computer science program developed in 1976 was the Gulf Energy & Minerals Data Bank. A proprietary set of computer programs converts exploration data into maps and profiles that may portray indications of oil or gas in subsurface structures. Gulf uses this information in such competitive situations as lease sales and land acquisitions.

Gulf expanded its offshore technology consultation group last year to help the Company overcome drilling and production problems in hostile frontier areas offshore North America.

Research on enhanced recovery techniques to extract more oil from existing wells also received increased attention in 1976. A system to recover energy normally wasted in certain tertiary recovery processes was successfully tested last year, and may have potential in the in situ extraction of oil from oil shale, coal and tar sands.

Gulf established a Technology-Government Coordination function in 1976 to develop joint industry/government research and development projects which relate to anticipated changes in the Company's business, such as the search for alternate energy sources. Gulf now has four active R&D contracts with the government that include producing liquid fuels from coal, energy conservation and environmental programs.

General Atomic Company

General Atomic Company, Gulf's joint venture with Royal Dutch/Shell, eliminated its last outstanding commitments for new High Temperature Gas-cooled Reactors (HTGR) in January 1976. Efforts for the past year focused on the HTGR prototype at Fort St. Vrain and an HTGR commercialization study jointly financed by General Atomic and the government. Gulf's nuclear losses of $11 million compared with $14 million in 1975.

Gulf intends to continue the development of gas-cooled reactor technology, including a fast breeder reactor, and development of solar and fusion technology to the extent that these programs are supported by the government and the utility industry. Whether this support is forthcoming will depend largely on how soon the state of uncertainty that exists throughout the nuclear industry is clarified.

On December 13, the Fort St. Vrain Nuclear Generating Station in Colorado produced power for the first time. Since then, General Atomic's 330 megawatt demonstration reactor has operated at up to 28 percent of capacity while tests and start-up continue. Full commercial operation is expected in late 1977.

No operating licenses have yet been issued for General Atomic's joint venture in Allied-General Nuclear Services, a light water fuel reprocessing facility at Barnwell, South Carolina.

General Atomic is both a buyer and seller of uranium. While the Company has contracted to purchase more than sufficient quantities to meet its sales commitments, it is involved in litigation with two suppliers who are seeking to

avoid delivery of substantial contracted quantities of uranium.

The status of General Atomic is discussed more fully on page 32.

Real Estate Activities

The real estate market made a comeback from the depression of 1974 and 1975 enabling Gulf's real estate activities to break even in 1976. During the year, Gulf also adopted a change in strategy to direct its expertise toward the professional management of Gulf's real estate assets, including those that have become surplus to its operating requirements.

Improvements were recorded in most of Gulf's major projects last year. The exceptions were the new town of La Prairie outside Montreal, Canada, where a strike by construction workers throughout Quebec delayed completion of the first model homes and Florida Center where the Company's operations are being phased down.

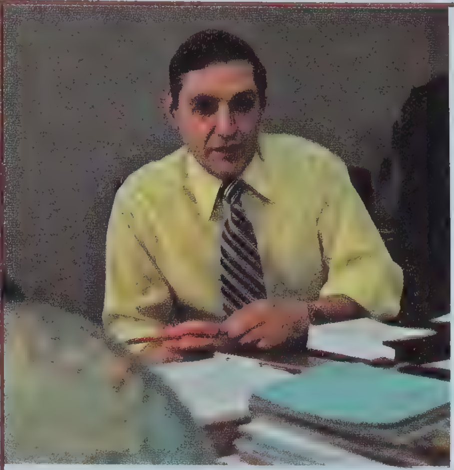
During 1976, an office for the Kuwait Gulf Real Estate Company was opened as the first step in a joint venture with the government of Kuwait to pursue real estate opportunities throughout the Middle East.

These ventures, as well as the Company's projects at Reston, Virginia; Ocean Village at Ft. Pierce, Florida, and the chain of recreational vehicle parks operated by Venture Out In America, Inc. will be continued. However, no new projects of this nature are contemplated as the Company's management skills are focused more closely on Gulf's internal real estate requirements. For instance, Gulf's real estate personnel helped locate a site for a new chemical laboratory in 1976 and undertook project management responsibilities for a new data center in Houston.

Support Services

Supporting Gulf's worldwide operations is a headquarters staff that provides financial services, coordination, planning, evaluation and control under the leadership and motivation of the Company's Chairman and President. Among the wide range of services available from headquarters are those that benefit individual employees and the communities in which they live.

Gulf's future growth and profitability depend in large measure on the development of capable managers who can respond to both current and future business opportunities and challenges. While this development occurs primarily through the planned assignment of promising employees to positions of increasing responsibility, it is supplemented by the expanded use of formal training courses.



"Gulf receives income daily from the sale of products, while major expenses are paid monthly. The money not immediately needed for operations comes to my office for temporary investment. Currently, about $1.4 billion, or 10 percent of the Company's assets, are managed out of this office. We must see that these funds are securely invested and easily convertible back into cash. At the same time, we want this money to work as hard as it can for Gulf. Last year our portfolio earned $88.6 million or about a seven-percent return. It gives me a great deal of satisfaction to see Gulf's money work, because that money translates into drilling leases, new plants, research projects, a coal mine, new jobs, and most importantly, more energy for the people of this country."

—Cliff Zimmerman is vice president and treasurer of Gulf Oil Securities in New York City, which manages the Company's short-term investment portfolio. He is one of 3,500 Gulf people providing essential services in the U.S.

One such source of internal management training is Gulf Management Institute which completed its first full year in 1976 by offering to 400 Gulf managers nine different programs, ranging from several days to two weeks. An additional 67 managers took part in externally administered training courses, such as those offered by the University Executive Development Programs.

Gulf reaffirmed its long-standing commitment to Equal Employment Opportunity in 1976 by establishing a new Affirmative Action/EEO Management and Support System to assist the operating companies in meeting their goals of hiring and upgrading women and minorities.

Gulf's minority employment within the U.S. has risen to 13.8 percent in 1976 from 8.4 percent in 1972 and female employment has grown to 17.9 percent from 15.5 percent during the same period.

During 1976, women accounted for 34 percent of all new hires within the U.S. and received 24 percent of all promotions while minorities accounted for 24 percent of new hires and 17 percent of the promotions.

Gulf, including the Gulf Oil Foundation, contributed $5.4 million for charitable and educational purposes during 1976. Approximately $3 million went to colleges and universities either as direct support or indirectly through scholarships to students. University studies of the energy problem received special support as did programs to help minorities.

The remaining $2.4 million went to a variety of charitable and noncollege educational and scientific programs. The United Funds in plant localities received more than one-quarter of this while the rest went to support hospitals, cultural programs and other community services. Grants to promote understanding of the private enterprise system among journalists, other opinion makers and high school students received increased emphasis during 1976 under both the educational and noneducational programs.

The Gulf Employee Gift Matching Program was expanded in 1976 to include certain other charitable organizations as well as colleges and universities. Through this program, the Company matches on a two-for-one basis contributions made by employees, retired employees and directors.

Employees at Year-End 1976

Petroleum	
Exploration & Production	6,900
Refining & Marketing	28,900
Transportation & Trading	3,300
Chemicals	5,200
Minerals	2,000
Technical & Support	7,000
	53,300
United States	29,800
Canada	11,100
Other Foreign	12,400
	53,300

FINANCIAL REVIEW

Annual Earnings

Earnings rose 16.6 percent during 1976 to $816 million, or $4.19 per share, representing the second highest earnings in the Company's history. In 1975, earnings were $700 million, or $3.60 per share. The improvement reflected meaningful contributions to earnings by the Company's worldwide refining, marketing and transportation operations which accounted for approximately 20 percent of the $682 million in petroleum profits compared with breakeven operations in 1975. Chemical earnings rose to $148 million and contributed 18 percent of the Company's total earnings. Losses for the minerals, nuclear and real estate activities were substantially reduced. Geographic distribution of net income by major business segments is presented in Note 3 of Notes to Financial Statements.

U.S. petroleum earnings declined to $365 million from $459 million in 1975. An almost doubling of the federal income tax burden and higher exploration costs were the principal reasons for the decline. Daily average production of crude oil and natural gas declined 6.4 percent and 12.6 percent, respectively, from the daily average rates in 1975. Increased exploration and wildcat drilling costs aimed at reversing the production declines largely offset higher allowable wellhead prices. Refining and marketing operations benefited from strong demand throughout 1976 which resulted in the first increase in refined product sales in three years. A 31-percent increase in crude oil imports, to help meet this demand, and higher domestic crude costs were not fully recovered by higher realizations in refined products. However, the Company benefited from lower costs associated with the Government's allocation and entitlements programs and from the elimination in 1976 of the Supplemental Import Fee.

Canadian petroleum earnings of $102 million were essentially flat for the year. Profits from other foreign petroleum operations nearly doubled to $215 million for 1976 compared with $109 million for all of 1975 reflecting higher refined products prices in Europe and some inventory liquidations.

Crude oil production and purchases under long-term arrangements outside North America declined 12.6 percent to 1.3 million barrels per day, reflecting the loss of Angolan production in the first three months of the year, as a result of that country's civil war, and the Company's first full year of operations under crude purchase agreements in Kuwait and Venezuela.

Foreign currency translation resulted in a gain of $16 million in 1976 compared with an $11 million loss in 1975.

Substantial increases in volumes of petrochemicals and plastics, as well as an improved marketing climate in the U.S. and Europe, were the principal factors responsible for the strong performance of chemical operations, where profits rose to $148 million from $84 million in 1975. An increase in investment tax credits of $38 million resulting from U.S. chemical plant expansions also benefited U.S. earnings.

The Company's mineral losses narrowed to $5 million in 1976 from $26 million in 1975 reflecting an 8.2-percent increase in U.S. coal production to 7.9 million tons in 1976 and a full year's production of uranium at Rabbit Lake, Saskatchewan.

Total income taxes decreased by $620 million to $1,392 million in 1976 primarily due to the absence in 1976 of foreign income taxes relating to the Company's former equity production in Kuwait and Venezuela and the shutdown of operations in Angola during the first quarter of 1976. Beginning in 1976, the Company's total cost of oil purchased from Venezuela and Kuwait is reflected as purchase costs whereas in previous years, part of the Company's costs included income taxes paid on equity production.

Quarterly Earnings

Fourth-quarter 1976 earnings of $218 million, or $1.12 per share, were 28.2 percent higher than the $170 million, or 88 cents per share, for the 1975 period.

U.S. petroleum earnings decreased to $69 million from $139 million a year earlier and were the lowest for any quarter in the year. Substantially higher exploration and wildcat drilling costs and increased tax provisions were the major contributing factors.

Canadian petroleum earnings declined 33.3 percent to $22 million largely due to higher selling costs, lower crude production and the impact of the decline in the value of the Canadian dollar.

Profits from other foreign petroleum operations of $102 million compared with a loss of $22 million in the 1975 period. Major contributing factors were improved European refined product prices and some inventory liquidation in 1976; whereas the fourth quarter of 1975 was depressed due to increased OPEC crude prices which were not immediately recovered in the market place. In addition, the Company realized a net gain of approximately $17 million between the two periods from nonrecurring items arising in countries in which the Company has been nationalized.

Crude oil production and purchases under long-term arrangements outside North America increased 22.5 percent to 1.5 million barrels per day as customers built inventories in anticipation of a price increase by OPEC.

Foreign currency translation resulted in a loss of $7 million in the fourth quarter of 1976 compared with a $1-million gain in 1975.

Chemical earnings were the same for both periods although the U.S. earnings benefited from higher investment tax credits from plant expansions in 1976.

Total income tax expense was $404 and $458 million for the 1976 and 1975 quarters which equate to effective tax rates of 65 and 73 percent, respectively.

A summary of the Company's financial results by quarters is set forth in Note 24 on page 43.

Capital Stock

The Capital Stock of Gulf is listed on the New York, Midwest and Toronto stock exchanges. The major portion of trading occurs on the New York Stock Exchange, where the high and low sales prices of the Company's stock are summarized below.

	Market Prices Per Share				
	1976	1975	1974	1973	1972
High	**$29¼**	$23½	$25¼	$28⅞	$30
Low	**20⅜**	17⅝	16	20	22
Close	**28⅞**	20½	17⅝	23⅝	27
Shares Traded (Thousands)	**34,778**	23,190	16,375	28,981	38,179

	Quarterly Stock Price Ranges and Dividends					
	1976			1975		
	High	**Low**	**Div.**	High	Low	Div.
Quarters						
First	**$25⅞**	**$20⅜**	**$.425**	$22	$17⅝	$.425
Second	**28⅜**	**23⅞**	**.425**	23½	18⅜	.425
Third	**28¾**	**25½**	**.425**	23½	19⅝	.425
Fourth	**29¼**	**24⅜**	**.45**	23	19¾	.425

Based upon the fourth quarter 1976 dividend, the Company's annual dividend rate is $1.80 per share.

Total shareholders' equity at December 31, 1976 was $6.94 billion which represented 52 percent of total assets and 86 percent of total capitalization.

The Company's shareholders reside in all 50 states and in 85 foreign countries. As of December 31, 1976, Gulf common stock was held by 308,776 individuals and 47,992 institutional accounts, with individuals holding 68.9 million shares, or 35 percent of 194.8 million shares outstanding. The average individual account held 223 shares at year-end representing an investment value of $6,439. More than 67 percent of the Company's individual shareholders hold less than 200 shares of stock and less than one percent own more than 5,000 shares. Some 26,319 employees are also shareholders, owning a total of 3.7 million shares. Retired employees own another 2.1 million shares. Together these groups control approximately three percent of total shares outstanding. Thousands of other individuals hold the Company's stock in street name accounts at brokerage firms or have an indirect investment through participation in Corporate, state and municipal pension plans, savings clubs, mutual funds and trusts managed by banks, insurance companies and other institutional holders. Charitable foundations, university endowment funds, religious bodies and hospitals also benefit from institutional ownership of the Company's stock.

Long-Term Debt

Long-term debt amounted to $1.17 billion at December 31, 1976 reflecting a reduction of $126 million from the balance at December 31, 1975. Obligations payable in foreign currencies represented 22 and 24 percent of long-term debt at the end of 1976 and 1975, respectively. Net debt retirements since 1972 were $773 million bringing the Company's debt to total capitalization ratio down to .14 from .27.

Expenditures

During 1976, the Company committed $2.1 billion and spent a record $1.74 billion on worldwide capital and exploration projects, which represented an increase of 13% from 1975. Total expenditures by the Company for the expansion, improvement and replacement of properties, business investments and exploration and dry hole expense were distributed as follows:

	Millions of Dollars		% of Earnings Before Exploration Expense	
	1976	1975	**1976**	1975
Petroleum				
Exploration and Development				
United States	**$ 732**	$ 483	**62%**	48%
Canada—Tar Sands	**99**	66	**8**	6
Canada—Other	**118**	75	**10**	7
Europe—North Sea	**74**	51	**6**	5
Africa	**36**	71	**3**	7
Asia	**20**	30	**2**	3
Latin America	**5**	11	**1**	1
Middle East	**3**	—	**—**	—
Total	**1,087**	787	**92**	77
Marketing	**84**	95	**7**	9
Refining	**101**	73	**9**	7
Transportation	**121**	102	**10**	10
Natural Gas Liquids	**38**	27	**3**	3
Other	**28**	61	**2**	6
Total Petroleum	**1,459**	1,145	**123**	112
Chemicals	**150**	212	**13**	21
Minerals	**91**	80	**8**	8
Other	**26**	11	**2**	1
Business Investments	**16**	98	**1**	10
	$1,742	$1,546	**147%**	152%

Working Capital

During 1976, cash and marketable securities increased $152 million to $1.99 billion, an amount which represented 170 percent of long-term debt. By contrast, five years ago cash and marketable securities of $638 million represented only 33 percent of long-term debt.

The increase in cash and marketable securities and in noncash working capital resulted in a total increase in working capital of $253 million in 1976 compared to only $25 million in 1975.

The significant increase in noncash working capital was primarily due to higher volumes of third-party foreign crude oil sales at increased prices and higher chemical inventory volumes. These effects were somewhat offset by increased payables reflecting higher volumes and purchases from foreign oil producing countries, especially those countries in which the Company did not have an equity interest during 1976.

Working capital of $1.99 and $1.74 billion at December 31, 1976 and 1975, respectively, represented approximately 20 percent of employed capital at the end of those years.

Financial Ratios

	Year Ended December 31				
	1976	1975	1974	1973	1972
Short-term ratios:					
Cash and marketable securities to current liabilities	**.47**	.49	.43	.44	.43
Acid-test (a)	**1.17**	1.12	1.14	1.32	1.49
Current assets to current liabilities	**1.47**	1.46	1.42	1.63	1.97
Current debt to long-term debt (including current portion)	**.11**	.14	.11	.07	.09
Capital and long-term ratios:					
Long-term debt to total capitalization (b)	**.14**	.17	.19	.23	.27
Net properties to long-term debt	**5.68**	4.82	4.10	3.40	2.79
Interest coverage (c)	**8.49**	7.25	9.80	6.93	4.04
Return on investment ratios:					
Income as a percent of average employed capital (d)	**10.42**	9.55	14.55	11.66	6.84
Net income as a percent of average shareholders' equity (e)	**12.18**	11.16	18.65	15.24	8.56
Performance ratios:					
Net income as a percent of sales (e) (f)	**4.96**	4.91	6.47	9.50	7.16
Sales to total assets (f)	**1.22**	1.15	1.32	.84	.67

Amounts used above which are not defined elsewhere in this report are represented by the following:
(a) Acid-test; cash, marketable securities and receivables to current liabilities
(b) Capitalization; total of long-term debt and shareholders' equity
(c) Interest coverage; ratio of income before extraordinary items and interest expense to interest expense
(d) Income; net income and minority interest and interest expense net of tax
(e) Net income; income before extraordinary items
(f) Sales; sales and other operating revenues less consumer excise taxes

Report of Independent Accountants

Price Waterhouse & Co.

600 GRANT STREET, PITTSBURGH, PENNSYLVANIA 15219

February 23, 1977

To the Shareholders and Board of
Directors of Gulf Oil Corporation

In our opinion, based on our examinations and the report of other independent accountants mentioned below, the accompanying consolidated statement of financial position, the related consolidated statements of income and retained earnings and of changes in financial position, and the supplemental schedules on pages 62 and 63 present fairly the financial position of Gulf Oil Corporation and its subsidiaries at December 31, 1976 and 1975 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements and supplemental schedules were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the consolidated financial statements of Gulf Oil Canada Limited and its subsidiaries which constitute no more than 13 percent of total revenues in each of the two years ended December 31, 1976 and 15 percent of total assets at December 31, 1976 and December 31, 1975. Our opinion, insofar as it relates to the amounts included for these companies, is based solely upon the report of other independent accountants.

Price Waterhouse & Co.

Consolidated Statement of Income and Retained Earnings

	Millions of Dollars Year Ended December 31	
	1976	1975
REVENUES		
Sales and other operating revenues (Note 3)	**$18,117**	$15,838
Interest income	**189**	183
Equity in earnings (losses) (Note 13)	**40**	(23)
Other revenues	**57**	44*
	18,403	16,042
DEDUCTIONS		
Purchased crude oil and products	**10,019**	7,306
Operating expenses	**1,400**	1,251
Selling, general and administrative expenses	**1,299**	1,216*
Taxes other than income taxes (Note 14)	**2,097**	2,214
Depreciation, depletion, amortization and retirements (Note 9)	**631**	628
Exploration and dry hole expenses (Note 8)	**364**	317
Federal Energy Administration entitlements	**214**	224
Interest on long-term financing	**109**	114
Income applicable to minority interests	**62**	60
	16,195	13,330
INCOME BEFORE TAXES ON INCOME	**2,208**	2,712
TAXES ON INCOME (Note 14)		
United States	**226**	120
Foreign	**1,166**	1,892
	1,392	2,012
NET INCOME	**816**	700
RETAINED EARNINGS AT BEGINNING OF YEAR	**5,320**	4,951
CASH DIVIDENDS	**(336)**	(331)
RETAINED EARNINGS AT END OF YEAR	**$ 5,800**	$ 5,320
PER—SHARE DATA		
Net income	**$ 4.19**	$ 3.60
Cash dividends	**$ 1.73**	$ 1.70

*1975 reclassified to conform to presentation adopted in 1976.

The notes on pages 28 to 43 are an integral part of the financial statements.

Consolidated Statement of Financial Position

	Millions of Dollars December 31 1976	1975
ASSETS		
Current assets		
Cash and marketable securities (Note 4)	**$ 1,989**	$ 1,837
Receivables (less allowance of $48 and $45 million) (Note 5)	**2,907**	2,356
Inventories (Note 7)	**1,242**	1,143
Prepaid expenses and other current assets (Note 17)	**41**	137
Total current assets	**6,179**	5,473
Properties (less accumulated depreciation of $5,843 and $5,650 million) (Note 9)	**6,632**	6,236
Investments in affiliated and associated companies (Note 13)	**308**	280
Long-term receivables and other investments (less allowance of $60 and $58 million) (Note 6)	**288**	405
Deferred charges	**42**	31
TOTAL ASSETS	**$13,449**	$12,425
LIABILITIES		
Current liabilities		
Accounts payable	**$ 2,317**	$ 1,757
Notes payable and current long-term debt (Note 11)	**139**	217
Consumer sales and excise taxes payable	**151**	158
Accrued United States and foreign income taxes	**565**	618
Accrued rents and royalties	**145**	99
Liability to nuclear partnership (Note 10)	**30**	138
Other current liabilities (Note 15)	**844**	751
Total current liabilities	**4,191**	3,738
Long-term debt (Note 11)	**1,168**	1,294
Deferred production payment proceeds (Note 12)	**123**	57
Deferred income taxes (Note 14)	**483**	369
Other long-term liabilities	**145**	156
Minority interests (Note 20)	**397**	353
TOTAL LIABILITIES	**6,507**	5,967
SHAREHOLDERS' EQUITY		
Capital stock—authorized 300,000,000 shares, without par value; issued 211,910,826 shares stated at	**883**	883
Paid-in capital	**698**	698
Retained earnings	**5,800**	5,320
	7,381	6,901
Less 17,046,686 and 17,200,641 shares in treasury, at cost (Note 22)	**439**	443
TOTAL SHAREHOLDERS' EQUITY	**6,942**	6,458
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$13,449**	$12,425

The notes on pages 28 to 43 are an integral part of the financial statements.

Consolidated Statement of Changes in Financial Position

	Millions of Dollars Year Ended December 31	
	1976	1975
FUNDS PROVIDED BY:		
Net income	**$ 816**	$ 700
Income charges (credits) not affecting funds:		
Depreciation, depletion, amortization and retirements	**631**	628
Income applicable to minority interests	**62**	60
Undistributed (earnings) losses of affiliates and associates	**(32)**	49
Deferred income taxes	**114**	109
Other	**(29)**	(7)
Funds from operations	**1,562**	1,539
Proceeds from sales of properties	**342**	226
Reduction of investments and long-term receivables	**138**	38
New financing including production payment proceeds	**156**	156
	2,198	1,959
FUNDS USED FOR:		
Properties and business investments	**1,378**	1,229
Reduction of long-term debt and production payments	**211**	225
Dividends	**336**	331
Nuclear partnership reclassification (Note 10)	**—**	138
Other—net	**20**	11
	1,945	1,934
INCREASE IN WORKING CAPITAL	**253**	25
LESS INCREASE (DECREASE) IN NONCASH WORKING CAPITAL (Note 2)	**101**	(46)
INCREASE IN CASH AND MARKETABLE SECURITIES	**$ 152**	$ 71
CASH AND MARKETABLE SECURITIES AT END OF YEAR (Note 4)	**$1,989**	$1,837

The notes on pages 28 to 43 are an integral part of the financial statements.

Notes to Financial Statements

Note 1—Summary of Accounting Policies

This summary of the major accounting policies of Gulf Oil Corporation and its consolidated subsidiaries is presented to assist the reader in evaluating the Company's financial statements. The accounting policies employed by the Company are in accordance with generally accepted accounting principles. In those instances in which more than one generally accepted accounting principle can be applied, the Company has adopted and consistently applied in all material respects the accounting principle which it believes most accurately and fairly reflects its operating results.

Exploration and Development Expenditures

Oil and Gas

In the petroleum industry the most significant accounting policy relates to the method of accounting for the exploration for and the development of oil and gas reserves. In this regard, the Company's capitalization policy follows the "successful effort" concept in that drilling and equipment costs are capitalized only on successful wells. All exploratory costs including successful geological and geophysical costs, annual delay rentals on undeveloped leases and all dry hole costs are charged to income as incurred. The costs of drilling discovery wells in remote frontier areas where future production is not reasonably assured are also charged to income as incurred.

Minerals

Exploration and development expenditures are charged to income as incurred until a project is determined to be economically feasible. Subsequent to such determination expenditures are capitalized and amortized in accordance with the Company's policy.

Depreciation, Depletion, Amortization and Retirements

Oil and Gas

Provisions for depreciation, depletion and amortization of lease and well equipment, intangible drilling costs applicable to productive wells, and undeveloped and developed leasehold costs represent charges per unit of production based on the estimated proved and developed oil and gas reserves in each country. Undeveloped leasehold costs in countries where production has not yet commenced are amortized on a straight-line basis over five years.

Minerals

Capitalized exploration and development expenditures are generally amortized when commercial production is obtained, except that the lease acquisition costs relative to oil shale are being amortized over the initial lease period of three years. Provisions for amortization follow the unit-of-production method except that coal is amortized on a straight-line basis over the estimated producing lives of the properties.

Other

Provisions for depreciation and amortization of all other properties are generally determined on the group basis using the straight-line method based on estimated remaining economic useful lives of groups of related properties. Rates are revised when a change in life expectancy becomes apparent.

Retirements, Maintenance and Repairs

Properties retired or otherwise disposed of are eliminated from the property accounts and the amounts, after adjustment for salvage and dismantling expenses, are charged to accumulated depreciation or depletion. Only gains and losses on extraordinary retirements or retirements involving entire groups of properties are charged or credited to income.

Maintenance and repairs are charged to income, and renewals and betterments which extend the economic life of the properties are capitalized.

Principles of Consolidation

The accounts of Gulf Oil Corporation and all subsidiary companies more than 50-percent owned are included in the consolidated financial statements except for those engaged in real estate activities and a domestic financing subsidiary. The real estate and financing subsidiaries (affiliated companies) and all other investments 20 to 50 percent owned (associated companies) are accounted for on the equity method.

Translation of Foreign Currency

Balances and transactions in foreign currencies have been translated to U.S. dollars as follows: inventories, prepaid expenses, long-term investments and properties—at rates current on dates of acquisition; deferred taxes—at the average monthly rate in the year of deferral; accumulated depreciation, depletion and amortization and related provisions against income—on the basis of dollar value of the related assets; all other assets and liabilities—at rates current at end of period; and operating income and other expenses—at average monthly rates. Gains or losses on foreign currency translation are included in results of operations in the period incurred.

Inventory Valuation

Crude oil, petroleum products, chemicals and certain merchandise inventories generally are valued at annual average cost applied on the "last-in, first-out" (LIFO) basis, which in the aggregate is lower than market value. Inventories of Canadian subsidiaries generally are valued at the lower of cost applied on a "first-in, first-out" (FIFO) basis or market value. Materials and supplies are valued at cost or less depending on the condition of the items.

Income Taxes

The Company practices interperiod tax allocation with respect to all significant timing differences. The current income tax provision is reduced by the amount of the realizable investment tax credit.

Pensions

Pension costs, which are determined by independent actuaries, are funded as accrued. Prior service costs are amortized and funded over varying periods for the different plans but generally for no more than 15 years.

Interest Costs

Interest costs are charged to income as incurred.

Crude Oil Transactions

In addition to its own production, the Company purchases large volumes of crude oil from other producers and sells crude oil not required for its own use. The Company records such purchases as purchase costs and such sales as revenues except that such transactions of the Company's Canadian subsidiary are excluded from both revenues and costs.

Goodwill

Goodwill arising from acquisitions accounted for as purchase transactions is amortized over its estimated beneficial life. The only unamortized goodwill currently reflected in the consolidated accounts is an insignificant amount recorded in the accounts of the Canadian subsidiary.

Research and Development Expenditures

Research and development expenditures are charged to income as incurred.

Earnings Per Share

Earnings per share is calculated based upon the daily weighted average of the number of shares outstanding during the year.

Note 2—Increase (Decrease) in Noncash Working Capital

An analysis of changes in noncash working capital as reported in the Consolidated Statement of Changes in Financial Position is as follows:

	Millions of Dollars	
	1976	1975
Increase (decrease) in noncash current assets		
Receivables	**$551**	$(493)
Inventories	**99**	55
Prepaid expense and other current assets	**(96)**	66
	554	(372)
(Increase) decrease in current liabilities		
Accounts payable	**(560)**	102
Notes payable and current long-term debt	**78**	(31)
Accrued income taxes	**53**	224
Liability to nuclear partnership	**108**	(138)
Other current liabilities	**(132)**	169
	(453)	326
Increase (decrease) in noncash working capital	**$101**	$ (46)

Note 3—Major Business Segments

	Millions of Dollars							
	Total		United States		Canada		Other Foreign	
	1976	1975	**1976**	1975	**1976**	1975	**1976**	1975
Sales and other operating revenues (includes consumer excise taxes)								
Petroleum	**$16,835**	$14,943	**$7,247**	$6,614	**$2,140**	$1,788	**$7,448**	$6,541
Chemicals	**1,062**	812	**669**	536	**127**	100	**266**	176
Minerals	**216**	77	**183**	75	**23**	2	**10**	—
Other	**4**	6	**1**	5	**—**	—	**3**	1
	$18,117	$15,838	**$8,100**	$7,230	**$2,290**	$1,890	**$7,727**	$6,718
Net income (loss)								
Petroleum	**$ 682**	$ 672	**$ 365**	$ 459	**$ 102**	$ 104	**$ 215**	$ 109
Chemicals	**148**	84	**94**	61	**7**	10	**47**	13
Nuclear	**(11)**	(14)	**(9)**	(10)	**—**	—	**(2)**	(4)
Minerals	**(5)**	(26)	**(10)**	(16)	**5**	(10)	**—**	—
Other	**2**	(16)	**—**	(16)	**—**	—	**2**	—
	$ 816	$ 700	**$ 440**	$ 478	**$ 114**	$ 104	**$ 262**	$ 118
Employed capital and net assets—December 31								
Petroleum*	**$ 6,651**	$ 6,592	**$3,886**	$3,537	**$1,352**	$1,186	**$1,413**	$1,869
Chemicals	**968**	808	**697**	554	**81**	79	**190**	175
Minerals*	**318**	240	**287**	210	**30**	30	**1**	—
Other	**29**	26	**22**	25	**—**	—	**7**	1
Corporate	**1,292**	1,021	**285**	345	**415**	195	**592**	481
Employed capital	**9,258**	8,687	**5,177**	4,671	**1,878**	1,490	**2,203**	2,526
Long-term debt	**1,168**	1,294	**701**	718	**186**	139	**281**	437
Other long-term liabilities	**1,148**	935	**492**	363	**590**	503	**66**	69
Net assets (shareholders' equity)	**$ 6,942**	$ 6,458	**$3,984**	$3,590	**$1,102**	$ 848	**$1,856**	$2,020

*1975 reclassified to conform to 1976 presentation of tar sands as "petroleum."

Note 4—Cash and Marketable Securities

	Millions of Dollars December 31 1976	1975
Cash	$ 54	$ 83
Time deposits and certificates of deposit	1,028	910
Marketable securities	907	844
	$1,989	$1,837
United States	$ 821	$ 819
Canada	461	232
Other Foreign	707	786
	$1,989	$1,837

Marketable securities are stated at cost which approximates market.

Note 5—Receivables

	Millions of Dollars December 31 1976	1975
Customers	$2,145	$1,673
Affiliated and associated companies	344	359
Other receivables	466	369
	2,955	2,401
Less: Allowance for doubtful accounts	48	45
	$2,907	$2,356
United States	$ 789	$ 683
Canada	457	422
Other Foreign	1,661	1,251
	$2,907	$2,356

In 1976 and 1975, provisions of $15 and $17 million, respectively, were credited to the allowance for doubtful accounts. Other charges and credits, principally write-offs and recoveries, were $15 and $3 million, respectively, in 1976 and $16 and $2 million, respectively, in 1975.

Note 6—Long-Term Receivables and Other Investments

	Millions of Dollars December 31 1976	1975
Long-term receivables	$277	$407
Other investments (at cost)	71	56
	348	463
Less: Allowance for doubtful accounts	60	58
	$288	$405
United States	$ 33	$ 53
Canada	36	36
Europe	113	146
Asia	48	77
Latin America	30	68
Middle East	28	25
	$288	$405

In 1976 and 1975, provisions of $4 and $47 million, respectively, were credited to the allowance for doubtful accounts. Other charges, principally write-offs, were $2 million in 1976 and $4 million in 1975.

Note 7—Inventories

	Millions of Dollars December 31 1976	1975
LIFO		
Petroleum		
United States	$ 264	$ 268
Europe	141	188
Other Foreign	85	25
Chemicals		
United States	67	40
Europe	30	13
Other Foreign	5	5
Merchandise	12	15
	604	554
FIFO (Canada)		
Petroleum	324	255
Chemicals	12	15
Merchandise	18	22
	354	292
Average Cost		
Petroleum	19	23
Chemicals	2	2
Minerals	4	2
Merchandise	12	12
Commodities	20	1
Materials and supplies	227	257
	284	297
	$1,242	$1,143
Total		
United States	$ 486	$ 451
Canada	384	319
Europe	197	222
Other Foreign	175	151
	$1,242	$1,143

	Millions of Barrels	
Petroleum Inventories		
United States	90	90
Canada	34	30
Europe	39	44
Other Foreign	9	6
	172	170

Decreases in certain LIFO pools increased earnings by $14 and $5 million, after considering taxes, in 1976 and 1975, respectively. LIFO inventories were $1.14 and $.87 billion less than current cost, including recognition of announced price increases of foreign crude, at December 31, 1976 and 1975, respectively.

Materials and supplies, and certain taxes on products carried in inventory are not included in the computation of cost of sales. The inventory amounts included in purchase costs, used in the computation of cost of sales, were $1.01, $.87 and $.86 billion at December 31, 1976, 1975 and 1974, respectively.

Note 8—Exploration and Development Expenditures

	Millions of Dollars							
	Expenditures				Depreciation Etc. Charged to Income		Net Capitalized Expenditures December 31	
	Charged to Income		Capitalized					
	1976	1975	1976	1975	1976	1975	1976	1975
Oil and gas								
United States	$204	$146	$528	$337	$251	$240	$2,198	$1,925
Canada	74	59	44	16	18	16	167	141
Europe—North Sea	28	31	46	20	—	1	65	26
Africa	13	25	23	46	39	45	78	258
Asia	20	29	—	1	2	2	5	7
Latin America	1	6	4	5	4	19	—	47
Middle East	3	—	—	—	—	—	—	—
Tar sands—Canada	—	—	99	66	—	—	181	82
	343	296	744	491	314	323	2,694	2,486
Oil shale—United States	4	8	—	—	23	21	2	25
Coal—United States	1	1	41	33	7	5	151	116
Uranium								
United States	12	8	26	20	1	—	98	86
Canada	4	4	3	6	3	—	27	27
	$364	$317	$814	$550	$348	$349	$2,972	$2,740

Of the net capitalized expenditures, $806 and $642 million relate to recently acquired leases and undeveloped properties at December 31, 1976 and 1975, respectively. These costs are being amortized in accordance with the Company's policy as described in Note 1.

In the computation of unit-of-production amortization, only those reserves classified as proved developed are used. Item 3 of Form 10-K on pages 54 to 56 describes the Company's method of classifying reserves and provides additional information with regard to the Company's oil and gas reserves.

Note 9—Properties

	Millions of Dollars							
	December 31				Year			
	Gross Investment at Cost		Net Investment		Depreciation Etc. Charged to Income		Expenditures Capitalized	
	1976	1975	1976	1975	1976	1975	1976	1975
Petroleum								
Exploration and development	$ 5,658	$ 5,408	$2,694	$2,486	$314	$323	$ 744	$ 491
Marketing	1,625	1,667	957	1,010	83	84	84	95
Refining	1,927	1,864	941	933	69	71	101	73
Transportation	1,044	1,023	636	603	51	50	121	102
Natural gas liquids	428	391	202	180	21	20	38	27
Other	165	145	129	115	12	10	28	61
	10,847	10,498	5,559	5,327	550	558	1,116	849
Chemicals	1,054	915	708	605	39	37	150	212
Minerals	421	364	278	254	34	26	70	59
Other	153	109	87	50	8	7	26	11
	$12,475	$11,886	$6,632	$6,236	$631	$628	$1,362	$1,131
United States	$ 8,935	$ 8,174	$4,525	$4,079	$428	$404	$ 957	$ 794
Canada	1,796	1,548	1,017	825	78	74	275	169
Europe	848	774	547	503	39	41	70	49
Africa	228	574	90	261	40	45	23	46
Asia	52	51	24	27	4	5	2	2
Latin America	98	239	58	159	16	32	8	14
Foreign flag tankers	518	526	371	382	26	27	27	57
	$12,475	$11,886	$6,632	$6,236	$631	$628	$1,362	$1,131

Note 10—Investment in Nuclear Partnership

The Company and Scallop Nuclear Inc., a Royal Dutch/Shell Group Company, own and operate General Atomic Company, a 50-50 partnership engaged in the nuclear business.

The investment in this partnership is accounted for on an equity basis. The excess of the Company's share of cumulative operating losses over its equity investment at December 31, 1976 and 1975 amounted to $30 and $138 million, respectively. This investment is summarized below:

	Millions of Dollars	
	December 31	
	1976	1975
Current assets	$ 15	$ 16
Investment in AGNS	52	51
Net properties	22	21
Total assets	89	88
Current liabilities	22	85
Provision for future losses	97	141
Total liabilities	119	226
Excess of liabilities over assets	$ 30	$138

Changes in the Company's investment during the years ended December 31, 1976 and 1975 are summarized as follows:

	Millions of Dollars	
	1976	1975
Net investment January 1,—liability	$138	$179
Operating losses	19	31
Advances	127	72
Net investment December 31,—liability	$ 30	$138

The net liability to the nuclear partnership, which was classified as long-term prior to 1975, was reclassified to a current liability at December 31, 1975 and is also reflected as a current liability at December 31, 1976 since it is anticipated that the Company's advances in 1977 will exceed the net liability balance. The partnership agreement provides that the capital requirements of the partnership will be contributed equally by the partners.

In years prior to 1975, provisions of $240 million were made for the Company's 50-percent share of anticipated future losses on certain commitments of the partnership. Since the establishment of this provision, continuing escalation of costs, other problems confronting General Atomic in the commercialization of the HTGR and uncertainties generally surrounding the development of nuclear power led to several contract cancellations by customers. As a result of these developments, in 1975 and early 1976 General Atomic agreed to the termination of its remaining commitments and currently has no commercial reactor orders. The Company's share of losses realized and charged to this provision were $44 and $96 million in the years 1976 and 1975, respectively.

Efforts are continuing toward resolving the prolonged technical and regulatory problems which have prevented commercial operation of the Fort St. Vrain plant being constructed for the Public Service Company of Colorado. In late 1976, the plant produced power for the first time and operated at up to 28 percent of capacity while tests and start-up efforts were continued. It is currently expected that commercial operation of the plant will begin in late 1977. The loss provision related to the Fort St. Vrain plant is considered to be adequate so long as additional technical or regulatory issues do not cause substantial delay.

Allied-General Nuclear Services (AGNS), a partnership of General Atomic and Allied Chemical Nuclear Products, Inc., has completed the initial stage of a light water reactor (LWR) fuel reprocessing facility near Barnwell, South Carolina. The viability of this plant and performance under related fuel reprocessing agreements depends upon development of a commercial-scale program to complete the closure of the LWR fuel cycle and resolution of other uncertainties including licensing problems, nuclear proliferation issues, government funding, and certain other matters subject to government regulation and court decisions. To date, discussions with the government regarding these matters have been inconclusive. In view of these uncertainties, start-up is not expected prior to 1979.

While AGNS would incur substantial losses under contracts with certain of its customers if performance were required, AGNS is not currently obligated to perform under the contracts because of force majeure, including the lack of necessary licenses, which will continue to excuse performance until properly resolved. In light of the importance of the Barnwell plant to the domestic nuclear fuel cycle and the national goals of energy independence and conservation, the Company expects successful resolution of the various issues which will eventually allow successful operation of the plant. Accordingly, the Company has made no provision for loss on its share of General Atomic's investment in AGNS.

General Atomic is currently involved in litigation and arbitration with two uranium suppliers, and five electric utilities concerning contractual arrangements for the purchase and sale of uranium and light water reactor fuel. The litigation involving suppliers and customers is complex and interrelated. Present contractual relationships, if sustained in the pending litigation and arbitration proceedings, would provide General Atomic with uranium supplies in excess of its sales commitments.

The litigation involving one of the uranium suppliers, United Nuclear Corporation, was filed on December 31, 1975 in the Santa Fe District Court, State of New Mexico, against General Atomic. The complaint alleged among other matters, that United Nuclear should be excused from performing a certain uranium supply obligation on the grounds of fraud, violation of New Mexico antitrust laws, commercial impracticability and

mutual mistake, but did not seek monetary damages in any specified amount. On May 5, 1976, General Atomic filed an answer and counterclaim for approximately $2.3 billion for alleged breach of two uranium supply obligations and for violation of New Mexico antitrust laws. On June 4, 1976, United Nuclear filed a reply and asserted a claim for monetary damages in an aggregate equal amount. This case is still in the discovery stage.

The Company does not believe United Nuclear's allegations are legally sufficient or factually supportable. In addition, the Company believes that resolution of the litigation and arbitration proceedings taken as a whole will not result in material loss and, accordingly, no provision has been made.

Note 11—Long-Term Debt

	Millions of Dollars December 31 1976	1975
United States dollars		
8½% sinking fund debentures due in 1995	**$ 200**	$ 200
6⅝% sinking fund debentures due in 1993	**200**	200
5.35% sinking fund debentures due in 1991	**73**	73
7 to 9% debentures due 1977 through 1987	**147**	154
3¾ to 6% notes payable 1977 through 1990	**139**	231
7¼ and 8½% notes payable 1977, 1978 and 1981	**47**	65
3⅞ to 5.3% bonds due 1977 through 1997	**84**	95
Other obligations	**102**	95
	992	1,113
Foreign currencies		
Canadian dollars—5⅛ to 8½% payable 1977 through 1990	**169**	131
German marks—7½% payable 1977 through 1986	**42**	38
Swiss francs—6½ and 6¾% payable 1978 and 1985	**26**	122
Italian lire—4% above Italian discount rate payable 1977 through 1985	**32**	46
Other currencies	**11**	18
	1,272	1,468
Included in current liabilities	**104**	174
	$1,168	$1,294

Approximate maturities in the years 1978 through 1981 are $78, $77, $80 and $122 million, respectively.

Current short-term notes payable at December 31, 1976 and 1975 were $35 and $43 million, respectively. At December 31, 1976, the Company had available approximately $460 million in unused lines of credit from banks. These lines are generally without compensating balance requirements or fees and can be withdrawn at the option of the bank generally after giving notice to the Company. It is anticipated that borrowings under these lines of credit would bear interest at prime commercial lending rates.

Note 12—Deferred Production Payment Proceeds

In 1975, the Company entered into two agreements (production payments) for the sale of economic interests in future production. Under these agreements, the Company is receiving total proceeds of $167 million over a three-year period which is being used principally for the development of new oil and gas fields in the Gulf of Mexico and expansion of a coal mine in New Mexico.

Under the terms of the agreements, the Company has dedicated percentages of production revenues for the repayment of the purchase amounts and for interest on the purchasers' financing arrangements. Repayment of the production payments is being made solely out of the revenues derived from recovered hydrocarbons or minerals which are produced from the properties.

Production and the repayment of the production payment from the oil and gas fields began in 1976 and is expected to begin during 1979 for the New Mexico coal mine. Changes during the years ended December 31, 1976 and 1975 are summarized as follows:

	Millions of Dollars 1976	1975
Balance, January 1	**$ 57**	$ —
Proceeds received	**78**	56
Interest charged to expense	**7**	1
Repayments	**(19)**	—
Balance, December 31	**$123**	$ 57

Note 13—Investments in Affiliated and Associated Companies

The Company's investments in affiliated and associated companies of $308 and $280 million and its liability to the nuclear partnership of $30 and $138 million (see Note 10), at December 31, 1976 and 1975, respectively, are summarized as follows:

	Millions of Dollars					
	December 31					
	1976			1975		
	Total	Affiliated	Associated	Total	Affiliated	Associated
Current assets	$ 602	$ 66	$ 536	$ 597	$ 77	$ 520
Properties	563	66	497	534	75	459
Other assets	126	8	118	126	16	110
Total assets	1,291	140	1,151	1,257	168	1,089
Current liabilities	462	40	422	569	32	537
Long-term debt	402	82	320	455	117	338
Other long-term liabilities	256	6	250	214	6	208
Total liabilities	1,120	128	992	1,238	155	1,083
Net assets	171	12	159	19	13	6
Advances	107	23	84	123	23	100
	$ 278	$ 35	$ 243	$ 142	$ 36	$ 106
Total						
United States	$ 11	$ 35	$ (24)	$ (99)	$ 36	$ (135)
Canada	11	—	11	14	—	14
Europe	138	—	138	118	—	118
Asia	118	—	118	109	—	109
	$ 278	$ 35	$ 243	$ 142	$ 36	$ 106

As of December 31, 1976, the Company was contingently liable for guarantees of debt of associated companies in the amount of $61 million.

The Company's equity in earnings (losses) of these companies is summarized as follows:

	Millions of Dollars					
	December 31					
	1976			1975		
	Total	Affiliated	Associated	Total	Affiliated	Associated
Revenues	$1,966	$ 49	$1,917	$1,692	$ 36	$1,656
Less:						
Purchases and operating expenses	1,761	29	1,732	1,617	15	1,602
Selling and administrative expenses	132	20	112	81	49	32
Taxes	33	—	33	17	1	16
	1,926	49	1,877	1,715	65	1,650
Equity in earnings (losses)	$ 40	$ —	$ 40	$ (23)	$(29)	$ 6
Total						
United States	$ (10)	$ —	$ (10)	$ (50)	$(29)	$ (21)
Canada	1	—	1	1	—	1
Other Foreign	49	—	49	26	—	26
	$ 40	$ —	$ 40	$ (23)	$(29)	$ 6
Cash dividends received	$ 26	$ —	$ 26	$ 26	$ —	$ 26

Note 14—Taxes

	Millions of Dollars					
	Total		United States		Foreign	
	1976	1975	**1976**	1975	**1976**	1975
Income taxes						
Current	**$1,370**	$1,928	**$ 238**	$ 72	**$1,132**	$1,856
Investment tax credits	**(92)**	(25)	**(83)**	(23)	**(9)**	(2)
Deferred	**114**	109	**71**	71	**43**	38
Total income taxes	**1,392**	2,012	**226**	120	**1,166**	1,892
Taxes other than income						
Consumer excise	**1,666**	1,570	**788**	775	**878**	795
Ad valorem	**166**	277	**131**	117	**35**	160
Sales and use	**102**	107	**13**	13	**89**	94
Import duties	**96**	204	**5**	136	**91**	68
Other	**67**	56	**44**	32	**23**	24
Total taxes other than income	**2,097**	2,214	**981**	1,073	**1,116**	1,141
Total taxes	**$3,489**	$4,226	**$1,207**	$1,193	**$2,282**	$3,033

Deferred taxes relating to the significant timing differences outlined below have been provided as follows:

	Millions of Dollars					
	Total		United States		Foreign	
	1976	1975	**1976**	1975	**1976**	1975
Depreciation	**$ 75**	$ 22	**$ 39**	$ 2	**$ 36**	$ 20
Intangible drilling and development costs	**40**	15	**38**	16	**2**	(1)
Geological and geophysical costs	**(17)**	(12)	**(15)**	(12)	**(2)**	—
Nonproducing leases	**(19)**	23	**(21)**	23	**2**	—
Foreign currency adjustments	**18**	11	**18**	11	**—**	—
Nuclear contract losses	**16**	36	**16**	36	**—**	—
Service indemnities	**—**	18	**—**	—	**—**	18
Other	**1**	(4)	**(4)**	(5)	**5**	1
Total deferred taxes	**$114**	$109	**$ 71**	$ 71	**$ 43**	$ 38

No deferred taxes have been recognized for the Company's share of the undistributed foreign earnings of certain subsidiaries, which were $746 million at December 31, 1976, since these earnings are considered to be permanently reinvested.

Total income tax expense was $1,392 and $2,012 million which equates to an effective tax rate of 63 percent and 74 percent on pretax earnings for 1976 and 1975, respectively. The following schedule reconciles the difference between the United States statutory tax rate and the effective rate:

	1976		1975	
	Amount in Millions	**% of Pretax Income**	Amount in Millions	% of Pretax Income
United States statutory tax rate	**$1,060**	**48%**	$1,302	48%
Increase (decrease) resulting from:				
Foreign taxes at rates in excess of the U.S. tax rate on foreign source income subject to U.S. tax	**230**	**10**	646	24
Allowable depletion in excess of cost depletion	**(19)**	**(1)**	(31)	(1)
Foreign taxes on foreign source income not subject to U.S. tax	**170**	**8**	165	6
Investment tax credit	**(92)**	**(4)**	(25)	(1)
Other	**43**	**2**	(45)	(2)
	$1,392	**63%**	$2,012	74%

Note 15—Pension Plans

The Company has various pension plans covering substantially all of its employees. The provisions for the cost of all the various pension plans charged to income for the years 1976 and 1975 were $136 and $113 million, respectively. The 1976 contribution to the Gulf Pension Plan, to be paid in 1977, is included in other current liabilities. At December 31, 1976, estimated unamortized prior service costs of all the various pension plans aggregated approximately $310 million.

Under the Gulf Pension Plan, covering the majority of U.S. employees, the market value of plan assets and balance sheet accruals exceeded the estimated value of vested benefits, based on the latest actuarial valuations projected to December 31, 1976.

A summary of changes in the fund investments, including receivables from the Company, for the Gulf Pension Plan during 1976 and 1975 follows:

	Millions of Dollars	
	Year Ended December 31	
	1976	1975
Investments at January 1, at cost	**$687**	$600
Company contributions	**115**	99
Fund income	**45**	29
Benefits paid	**(47)**	(41)
Investments at December 31, at cost	**$800**	$687
Market value at December 31	**$866**	$693

Note 16—Gas Sales Contract

On October 15, 1976, the Federal Power Commission (FPC) determined that the Company failed to comply with its contract with Texas Eastern Transmission Corporation with respect to deliveries of natural gas. The FPC's order, which has been stayed by the United States Court of Appeals for the Third Circuit, directed the Company to file by December 15, 1976 a computation of "refunds" calculated in accordance with a formula stated in the order and to pay a refund, plus interest, to Texas Eastern within 30 days of the FPC's approval of the Company's computation. The filed computation showed refunds, with interest, to be approximately $90 million through October 1976. This amount does not reflect force majeure factors which the Company believes are applicable. The Company contends that the Department of the Interior's failure to hold general offshore Louisiana lease sales for approximately 10 years should be reflected. Recognition of a four-year delay completely eliminates any refund.

This proceeding commenced in November 1975 when the FPC ordered the Company to show cause why it should not be found in violation of its certificate obligations because of alleged underdeliveries of natural gas to Texas Eastern. The Texas Eastern contract provides for the delivery of gas over a 26-year period or until 4.4 trillion cubic feet have been delivered, whichever first occurs, at a price of 19 cents per thousand cubic feet (mcf) for the first 10 years, 21 cents per mcf for the next 10 years and 22 cents per mcf thereafter. It provides for a daily quantity of 500 million cubic feet (mmcf), with an option for Texas Eastern to take up to 625 mmcf per day. Deliveries commenced in 1964. The Company was able to maintain cumulative average daily deliveries in excess of the 500 mmcf contract minimum through September 1976, but deliveries declined in recent years and averaged 362 and 358 mmcf per day in 1976 and 1975, respectively. The Company's developed gas reserves in the area and purchased gas have not in recent years been sufficient to maintain a higher daily deliverability. As a result of recent production from new fields offshore Louisiana, deliveries averaged approximately 440 mmcf per day for the month of January, 1977.

The Company's position is that it has complied fully with its obligations and has exercised reasonable diligence in its efforts to supply gas under the Texas Eastern contract. The basis of its appeal to the Third Circuit is that the FPC exceeded its authority in ordering "refunds" and further that even if the FPC had such authority, factual and legal grounds exist for substantially reducing or altogether eliminating liability to Texas Eastern.

The FPC's opinion stated that when the Company has delivered an amount of gas equivalent to the contract amount less the amounts of gas for which it has paid refunds, the Company shall be permitted to charge the contract price plus the amount of the refunds previously paid on an equivalent amount of gas. Similar charges may also be permitted if deliveries exceed 625 mmcf per day. If the FPC's action is upheld and the Company subsequently recovers the amount refunded, the net economic loss to the Company will be the difference between the present value of the refunds and the present value of the recoveries, less related tax effects. The Company has made no provision in the accounts for underdeliveries pending determination of unresolved matters with respect to the refund and the legal validity of the FPC order.

Upon the reinstitution of offshore lease sales in 1972 by the Federal Government, the Company was able to resume its exploration efforts in the Gulf of Mexico and continued its program of bidding and acquiring government leases when available. The Company has discovered and is developing additional gas reserves on certain of these leases. The cost of this exploration program and the potential gas reserves which may be established by such efforts cannot be determined with certainty. If this program is successful the Company believes it will be able to meet the total contract quantity and the total program will not result in out-of-pocket losses. However, lower profits will result than could have been realized as long as the FPC continues to require the volumes committed to the contract to be sold at the contract prices, which are significantly below market.

The Company will continue to take all practicable measures to meet its obligations and to minimize its exposure under the contract. However, since under the circumstances an evaluation cannot be made of the extent of the Company's possible liability if it does not fulfill the contract, and since it is possible that the total program will not result in out-of-pocket loss, no provision for loss has been made in the accounts.

Other actions related to the Texas Eastern contract have been commenced against the Company in Pennsylvania. A petition for review of the FPC order was filed in December 1976 in the United States Court of Appeals for the Third Circuit by the public utility authorities of Connecticut, Massachusetts and Rhode Island, the Rhode Island Attorney General and the Rhode Island Consumers Council primarily seeking to reverse the FPC's action permitting the Company to recoup any "refunds" paid to Texas Eastern. Clark, et al. v. Gulf Oil Corporation, filed in the United States District Court for the Eastern District of Pennsylvania on July 2, 1976, seeks equitable relief and damages in excess of $5 million on behalf of customers of Philadelphia Gas Works, a purchaser of gas from Texas Eastern, on the ground that the Company's failure to deliver gas constitutes a violation of the Natural Gas Act. Plaintiffs also demand treble damages for alleged violations of federal antitrust laws. Thompson, et al. v. Gulf Oil Corporation, et al., filed in the same court on August 26, 1976 makes similar allegations on behalf of customers of Philadelphia Electric Company and seeks damages in excess of $4 million. The Company has

moved to dismiss both complaints and the court, after having heard oral argument, has the motions under advisement. Philadelphia Gas Works commenced an action in the Court of Common Pleas in Philadelphia on July 23, 1976, but has not yet filed a complaint.

Note 17—Negotiations With Governments of Foreign Oil Producing Countries

In late 1976, the Company received payment from the Nigerian government covering its purchase, retroactive to 1974, of 55 percent of the Company's oil exploration and producing concessions. The payment received included compensation for the properties transferred, which was applied to the net book value of the Company's properties, reimbursement of certain prior year operating expenses and interest on the net amount due to the Company.

During 1976 the Company initiated negotiations with the Ecuadorian government aimed at an orderly withdrawal by the Company from its operations in Ecuador. The government of Ecuador issued a decree which authorized the national oil company, CEPE, to purchase, effective December 31, 1976, the Company's 37.5 percent interest in an oil exploration and production contract and 50 percent interest in a pipeline. Under the terms of the proposed agreement reached with the Ecuadorian government, the Company is to receive compensation for its interests based on the net book value of its assets, subject to an audit by an international accounting firm. The amount of initial compensation was recorded as a receivable and applied to the net book value of the Company's properties.

On December 1, 1975, an agreement was signed by the government of Kuwait, the Company and its partner, British Petroleum Company, which transferred all of the Company's remaining assets and operations in Kuwait to the government. The agreement, which was ratified by the Kuwait Assembly in March 1976, was effective as of March 5, 1975, and also provided for settlement relative to volumes and costs for prior years' purchases. In addition, the agreement provides the Company access to a supply of Kuwait crude oil with volumes averaging 500,000 barrels per day from January 1, 1976 through March 31, 1980 at an effective discount (after payment of Kuwait taxes) below Kuwait's declared market price.

Effective December 31, 1975, the government of Venezuela nationalized the Company's concession rights and properties. Separate agreements were signed with the Venezuelan government on February 24 and April 1, 1976, respectively, for two-year periods, retroactive to January 1, 1976, under which the Company is to provide technical services and is given the right to purchase an initial volume of 126,000 barrels per day of crude oil and products. The agreements contain provisions for extension for an additional two years.

The Company had, during the periods of lifting, made provisions for the anticipated costs of buy-back oil which were subject to negotiation. As a result of these provisions and the compensation received, the actions described above did not have a material effect on the Company's net assets or on 1976 or 1975 net income.

In late April 1976, the Company resumed operations in Angola which had been suspended temporarily in late December 1975 because of civil strife. At that time, the Company made payments to the government for amounts of taxes and royalties which had been held on deposit. At December 31, 1975, $83 million of such deposits was included in prepaid expenses and other assets. The Company has agreed to operate under the same terms which prevailed before the suspension of operations until discussions leading to a new long-term relationship can be undertaken.

In those countries where agreements concerning the volumes and prices of buy-back oil are not finalized, provision for costs has been made based on the Company's best estimate of the final outcome of negotiations.

In February 1976, the Company and its partner, Continental Oil Company, signed a participation agreement with the British government under which the Company and its partner each transferred to the British government an additional 8.8 percent interest in the title to their leases in the North Sea, giving the government a 51 percent ownership interest. In addition to royalty oil, the government received the right to purchase at market prices up to 51 percent of each field's output within six years after production begins. Under the agreement, the financial benefits and obligations of the three parties remain unchanged.

Note 18—Foreign Currency Adjustments

An analysis of the net foreign currency exchange adjustments included in income follows:

	Millions of Dollars Gain (Loss) 1976	1975
Long-term debt	$ 11	$ (1)
Working capital	8	(4)
	19	(5)
Minority interest	(2)	—
Tax effect	(1)	(6)
	$ 16	$(11)

The foreign currency adjustments, before minority interest and tax effect, are included in other revenues. Included in the net adjustments were unrealized gains of $4 million in 1976 and unrealized losses of $4 million in 1975 before tax effects.

Note 19—Contingent Liabilities

On July 18, 1973, the Federal Trade Commission (FTC) issued a complaint against the Company and seven other major petroleum companies charging violation of Section 5 of the Federal Trade Commission Act and alleging a combination or agreement to monopolize crude oil refining. The complaint states no specific relief, but the FTC may ask for divestiture of certain of the Company's operations. This administrative proceeding to date has largely dealt with procedural and discovery matters.

Several states have brought class actions against the Company and a number of other major oil companies in federal district courts. These actions have been instituted by Florida (July 9, 1973), Connecticut (July 25, 1973), Kansas (October 8, 1974), California (June 25, 1975), Arizona (July 22, 1976) and Oregon (February 10, 1977). They allege, among other things, that the defendants combined and conspired to restrain trade in the exploration, production, transportation and sale of crude oil and in the refining, distribution and marketing of petroleum products in violation of federal and state antitrust laws. These suits seek treble damages in unspecified amounts and injunctive relief, including divestiture of crude oil exploration and production activities. On August 31, 1976 the Judicial Panel for Multidistrict Litigation ordered the actions consolidated for pre-trial proceedings in the United States District Court for the Central District of California. Proceedings involving amended pleadings, discovery and pre-trial motions are under way.

A class action suit was filed on October 16, 1974 by an individual and on behalf of all members of the United Steel Workers in the United States District Court for the Northern District of Indiana, against the Company and seven other major petroleum companies charging defendants with violations of the federal antitrust laws and seeking damages in the amount of $750 million (before trebling) and injunctive relief. There have been no proceedings in this action since 1974.

On March 31, 1975, a complaint was filed in the United States District Court for the Southern District of New York by Harry B. Helmsley et al. against the Company and other petroleum companies alleging a conspiracy to fix and maintain prices of crude oil and petroleum products in violation of federal and New York State antitrust laws. The allegations are similar to those in three suits filed previously: Lefrak, et al. v. Arabian-American Oil Company, et al.; New York City Housing Authority v. Arabian-American Oil Company, et al.; and Rochdale Village Inc. v. Arabian-American Oil Company, et al. Two additional complaints, Brompton Associates Company, et al. and Doris Kaskel, et al. against the Company, filed in the United States District Court for the Southern District of New York on February 13, 1976, also contain similar allegations, but contain further claims that payments were made to employees and officials of foreign governments and other foreign persons and to domestic political officials and other persons for the purpose of controlling the supply and price of oil. The six suits combined seek damages of approximately $90 million (before trebling), punitive damages of approximately $445 million and injunctive relief.

On October 15, 1976, Westinghouse Electric Corporation filed a complaint in the United States District Court for the Northern District of Illinois against the Company and 28 other uranium producers, including a subsidiary of the Company. The complaint alleges that the defendants have fixed and increased prices and other terms of uranium sales, have allocated the market and have refused to deal with certain uranium purchasers, including plaintiff, in violation of federal antitrust laws. Plaintiff seeks injunctive relief plus treble damages in an unspecified amount. The Company has not filed an answer, but denies any wrongdoing and will defend its position. Discovery as to three defendants, including the Company, has been stayed pending a court ruling.

For additional information concerning uranium litigation, see Note 10.

On May 8, 1974, the Company received a Notice of Probable Violation (NOPV) issued by the Federal Energy Administration (FEA) indicating the Company had overcharged an amount of $46.5 million for certain of its foreign crude oils imported into the United States for the months of October 1973 through January 1974. The Company filed a reply maintaining it complied with FEA regulations by using its generally accepted and consistently applied accounting procedures in determining landed cost of imported crude oils based on arms' length, third-party prices. On October 30, 1974, the FEA adopted new regulations on landed cost of imported crude oil. The Company received Notices of Proposed Disallowance (NOPD) from the FEA in June and July 1975, proposing to disallow landed costs of its imported foreign crude oils of approximately $88 million (which is subject to adjustment upon FEA audit) based on the new regulations for the period October 1973 through May 1975. The NOPD includes the period and crude oils included in the NOPV. The Company filed replies to these NOPDs maintaining that its arms' length pricing method was in compliance with FEA regulations, that it should be permitted to offset substantial undercharges of costs by the Company (based upon FEA prices) against any proposed disallowance, and that the FEA regulatory formula for setting foreign crude oil prices is invalid. There have been no recent developments in these FEA proceedings.

On November 30, 1976, Phoenix Canada Oil Company, Limited filed in the United States District Court for the District of Delaware a complaint against the Company, its subsidiary, Ecuadorian Gulf Oil Company, and another petroleum company, alleging breach of and interference with plaintiff's contract rights to share in a cash payment equal to the value of two percent of oil and gas produced in a concession area in

Ecuador and intentional destruction or impairment of plaintiff's interests in Ecuador and elsewhere. Compensatory and punitive damages in excess of $10 million are sought.

On March 3, 1975, a suit was filed by Nelson Bunker Hunt (subsequently joined by W. Herbert Hunt and Lamar Hunt) in the United States District Court, Southern District of New York against the Company and other oil producers. Plaintiffs allege that defendants have combined and conspired in unreasonable restraint of trade and commerce in violation of the Sherman Act and the Wilson Tariff Act and that defendants had an unlawful agreement to divide markets and to refuse crude oil to plaintiffs. Damages of $125 million (before trebling) and at least $90 million for breach of contract are claimed.

The Company is also a party to other administrative proceedings brought by governmental authorities pursuant to federal, state or local environmental protection laws or regulations which allege violations of such laws and seek injunctive relief or civil penalties. The Company does not believe that these proceedings are, in the aggregate, material to its operations or net assets and does not foresee any material interruption of its operations as a result of any alleged violation of environmental laws or regulations.

The Company believes that none of the items described above will have a material adverse effect on the net assets or future earnings of the Company except that, with regard to the FTC complaint, the Company is still unable to determine what effect, if any, this proceeding will have on future earnings of the Company.

See Form 10-K Item 5 on page 57 for information regarding certain shareholder derivative actions.

The Company was contingently liable for guarantees of loans payable by owners of service stations and others in the amount of $137 million, and also for loans payable by associated companies as described in Note 13.

Note 20—Minority Interests

Minority interests in the equity of consolidated subsidiaries, primarily Gulf Oil Canada Limited of which the Company owned 68.3 percent at December 31, 1976 and 1975, were comprised of the following:

	Millions of Dollars	
	December 31	
	1976	1975
Capital stock	$110	$110
Retained earnings	285	241
Other	2	2
	$397	$353

Note 21—Commitments

The Company has noncancelable tanker charters and leases for service stations and other facilities including office space, tank cars and automobiles for which total rental expense in 1976 and 1975 was $124 and $116 million, respectively, after being reduced by related rental income of $28 and $24 million, respectively. Future minimum rentals payable under these leases are as follows:

	Millions of Dollars				
	Tanker Charters	Marketing Properties	Other	Less Rental Income	Net Rentals
1977	$ 47	$ 22	$ 66	$ 15	$120
1978	32	18	48	9	89
1979	22	15	39	8	68
1980	14	12	29	7	48
1981	3	10	22	4	31
1982-1986	—	25	81	11	95
1987-1991	—	10	66	5	71
1992-1996	—	6	64	4	66
After 1996	—	6	34	2	38
	$118	$124	$449	$ 65	$626

Under current Securities and Exchange Commission (SEC) regulations, certain of the leases included above are considered financial in nature. In the aggregate, however, such leases are not material.

The Company through its majority-owned Canadian subsidiary, has a 16.75 percent interest in a project (operated by Syncrude Canada Ltd.) for the extraction of oil from Athabasca tar sands leases in the province of Alberta. Total project costs for the construction of the 125,000-barrel-a-day plant, expected to be completed in 1978, are estimated to approximate $2 billion. The commitment of the Company's subsidiary will approximate $335 million of which $187 million had been expended through December 31, 1976. Part of the Company's commitment is being financed through a loan of $100 million from the government of Alberta. Through December 31, 1976, the Company had received approximately $55 million under this loan arrangement and the balance will be advanced from time to time in amounts related to expenditures made. Through options held by the government of Alberta, the Company's Canadian subsidiary's interest could be reduced to about nine percent with a corresponding reduction in its investment.

For additional information relating to commitments of the nuclear partnership, see Note 10 on page 32.

The Company has contractual commitments in the ordinary course of business for the acquisition or construction of properties and for the purchase of materials, supplies and services. These commitments are not considered significant in relation to the net assets of the Company.

The Company is also obligated to certain companies in which it has equity interests to provide specified minimum revenues from crude or product shipments or by other means. It is anticipated that shipments or other operating factors will be at levels sufficient to provide the revenues required.

Note 22—Stock Options

The Company has 1974, 1968 and 1951 Stock Option Plans under which stock options have been granted to certain of its officers and employees.

Several shareholder derivative actions filed during 1975 contained allegations with respect to certain options granted under the 1974 Stock Option Plan. For a description of this litigation see Form 10-K Item 5 on page 57.

Pursuant to the terms of the 1974 Stock Option Plan 3,341,000 shares of capital stock of the Company held in the Treasury have been reserved for sale to officers and employees. In addition to shares reserved under the 1974 Plan, treasury shares are reserved for unexercised options granted under the 1951 and 1968 Plans. At December 31, 1976 and 1975, respectively, 4,443,354 and 5,139,854 shares were reserved under all plans for officers and employees of the Company and its subsidiaries, of which 718,604 and 1,345,604 shares were subject to options granted. At December 31, 1976 and 1975, respectively, there were 3,724,750 and 3,794,250 shares available for the granting of options.

Options granted under each of the three plans expire from 5 to 10 years after the option date depending on the plan under which the options were granted and whether the options were qualified or nonqualified. Options are generally exercisable one year from the option date, except that options granted under the 1974 Plan in exchange for the surrender of outstanding options are exercisable six months after the option date. Nonqualified stock options granted under the 1968 Plan are exercisable only to the extent that the qualified stock options covering the same shares remain unexercised on their expiration date. In addition, qualified stock options granted under the 1968 Plan or which may be granted under the 1974 Plan may not be exercised while there is outstanding any qualified stock option previously granted to the same individual at the same or a higher option price.

Adjustments are made in the number of shares and the option price per share in the event of the declaration of stock dividends or the occurrence of certain other events affecting the Company's capitalization. The option price of each share purchased must be paid in full in cash at time of purchase.

All outstanding options granted prior to January 1, 1969 are nonqualified stock options granted under the 1951 Plan.

Options granted subsequent to December 31, 1968 and prior to January 1, 1974 were qualified and nonqualified stock options granted under the 1968 Plan. Options granted in 1969 and 1970 were qualified stock options. Options granted on January 28, 1971, January 27, 1972, June 27, 1972 and January 2, 1973, were all qualified stock options and nonqualified stock options covering the same shares. On April 24, 1973, both qualified stock options and nonqualified stock options were granted covering separate shares.

All options granted subsequent to January 1, 1974 were granted under the 1974 Plan. As well as permitting the granting of qualified stock options, the 1974 Plan allows nonqualified stock options with variable price options and stock appreciation rights. Variable price options include a provision that the original option price under the options shall be decreased by an amount (herein called the "adjustment factor") equal to the amount by which the fair market value of the shares covered by the options on the exercise date exceeds the original option price, provided that the adjustment factor may not exceed 90 percent of the original option price. No options have been granted with the variable price feature.

Options which include stock appreciation rights entitle the optionee to surrender unexercised options or any portion thereof to which such right relates to the Human Resources Committee of the Board of Directors and to receive from the Company in exchange therefor that number of shares of Capital Stock of the Company having an aggregate value equal to the excess of the fair market value of one share over the option price (reduced by the adjustment factor, in the case of a variable price nonqualified option) per share times the number of shares called for by the option, or the portion thereof, surrendered. The number of shares which may be received pursuant to the exercise of a stock appreciation right may not exceed the number of shares called for by the option, or the portion thereof, which is surrendered. The Committee has the right to determine that the Company's obligation in respect of a stock appreciation right be paid in cash or part in cash and part in shares. Under present U.S. Treasury Department rulings, the grant of a stock appreciation right with a "qualified stock option" will cause such option to become a nonqualified stock option.

Nonqualified options with stock appreciation rights were granted on February 11 and July 9, 1974. In connection with the grants on February 11, 1974, all options outstanding under the Company's 1968 Stock Option Plan and 1951 Stock Option Plan held by persons receiving such options under the 1974 Plan were surrendered and canceled. The exercise prices of the surrendered and canceled options ranged from $24.63 to $42.94 per share.

On November 12, 1974, option grants to certain directors, officers, and employees on February 11, 1974 at an average option price of $21.75 per share were rescinded and new options with stock appreciation rights were granted at an average option price per share of $17.81.

Proceeds from options exercised are credited to capital accounts; no amounts are charged to income in connection with the exercise of such options.

The following tables report information regarding option grants made to Company officers and employees. Shares of the Company under option were as follows:

Year Option Granted	Option Price Per Share (1)	December 31, 1976 (6) Number of Shares Unissued	December 31, 1976 (6) Total Option Price	December 31, 1975 (6) Number of Shares Unissued	December 31, 1975 (6) Total Option Price
1966	$25.97	—	$ —	22,500	$ 584,297
1967	32.63	45,004	1,468,256	51,904	1,693,368
1968	36.66	62,400	2,287,350	69,800	2,558,606
1971	29.38	62,050	1,822,719	71,550	2,101,781
1972	26.81	73,400	1,968,038	85,100	2,281,744
1973 (2)	27.00	9,000	243,000	9,000	243,000
1974 (3)	17.91	451,750	8,111,578	1,020,750	18,276,547
1975 (4)	21.67	15,000	325,000	15,000	325,000
1976 (5)	—	—	—	—	—
		718,604	$16,225,941	1,345,604	$28,064,343

(1) At the time each of the options was granted, the option price per share was the market value thereof. Option price shown is average per share for all options granted during the year.

(2) These options became exercisable as follows: 170,000 shares on January 2, 1974; and 5,000 shares on April 24, 1974. The fair market value at date exercisable was $4,202,188, an average of $24.01 per share.

(3) These options became exercisable as follows: 1,141,500 shares on August 11, 1974; 1,014,000 shares on May 12, 1975; and 5,500 shares on July 9, 1975. The fair market value at date exercisable was $42,437,594, an average of $19.64 per share.

(4) These options became exercisable as follows: 5,000 shares on July 15, 1976; and 10,000 shares on September 9, 1976. The fair market value at date exercisable was $404,375, an average of $26.96 per share.

(5) No options were granted during 1976.

(6) At December 31, 1976 and 1975, respectively, options covering 718,604 and 1,330,604 shares were exercisable.

Changes in options outstanding during 1976 and 1975 were as follows:

	Options Outstanding at January 1	Options Granted	Options Rescinded	Options Expired	Options Exercised	Options Surrendered For Stock Appreciation Rights	Options Outstanding at December 31
1975	1,631,429	15,000	None	210,825 (a)	None	90,000 (a)	1,345,604
1976	1,345,604	None	143,750 (b)	57,300	5,700	420,250 (c)	718,604

(a) As at December 31, 1975, there were options for 90,000 shares which could have been exercised at a profit before they expired during the period April through December, 1975. Because the registration statements covering the Company's stock option plans had not been amended to make the prospectus under the registration statements current during the period, these options were reported as expired even though attempts had been made to exercise most of them. In 1976, the Board of Directors determined that the options covering these 90,000 shares should be treated as having been exercised. After the registration statements were amended, 7,467 shares of Capital Stock were issued in payment of the stock appreciation rights attendant to these options.

(b) On July 13, 1976, the Board of Directors determined that options for 143,750 shares should be rescinded. These options had been surrendered with notices of exercise given by certain optionees with respect to the stock appreciation rights attendant to such options. Under the terms of the proposed settlement of certain shareholder derivative actions described in Form 10-K, Item 5 on page 57 these optionees agree not to contest the Board action.

(c) During 1976, options for 420,250 shares were surrendered in connection with the exercise of the stock appreciation rights attendant to such options. In payment for the exercise of these stock appreciation rights, 116,278 shares were issued.

Note 23—Replacement Cost Information *(Unaudited)*

Beginning with the financial statements for the year ended December 31, 1976, disclosure of certain replacement cost information is required by the SEC. While the information contained herein has been prepared in compliance with SEC requirements, the Company cautions against making general inferences from the data in view of its inherent imprecisions. In recognition of these imprecisions, the SEC has adopted a rule to safeguard companies so long as the information presented has been prepared on a reasonable basis and in good faith. Therefore, the Company emphasizes that while the calculations are based on what it believes to be reasonable assumptions and judgments the results should be viewed only as approximations.

Replacement costs as defined by the SEC are not intended to reflect the current market or disposal values of existing productive capacity and inventories. Rather, they are management's best estimates of the cost of replacement at prices and conditions prevailing at December 31, 1976. While the calculations assume a one-time replacement, actual replacement will occur over future periods when decisions concerning

replacement will be made in light of the economic, regulatory and competitive conditions at that time, and most probably will differ substantially from the assumptions on which the data included herein are based.

In addition, the replacement cost data required by the SEC does not consider several factors, the absence of which makes the information incomplete. No consideration is given to the effects which would result in times of inflation from holding gains experienced by a borrower and holding losses resulting from the possession of monetary assets, such as cash, receivables, etc. Further, no recognition is given to operating efficiencies, such as a reduction in the labor force, or for the substantial investment tax credit which would result from the replacement of total productive capacity.

Since it is not practical to estimate the impact of the above items, it is management's opinion that the replacement cost data presented cannot be used to impute the total effect of inflation on financial reporting. Furthermore, due to subjective judgments inherent in the estimates, the information may not be comparable with other companies in the industry.

PRODUCTIVE CAPACITY

For the year ended December 31, 1976, replacement cost information is not required for mineral resource assets nor for those assets located outside the North American Continent and the European Economic Community (EEC).

The Company's calculation of replacement cost for productive capacity at December 31, 1976 is summarized as follows:

	Historical Costs			
	Investment	Exclusions	Subject to Replacement Cost	Estimated Replacement Cost
	Millions of Dollars (Unaudited)			
Properties				
Mineral Resource Assets	$ 6,079	$6,079	$ —	$ —
Other Assets				
United States	3,629	537*	3,092	6,760
Canada	1,191	338*	853	2,250
EEC	660	72*	588	1,290
Tankers	731	89*	642	1,700
Other Foreign	185	185	—	—
	12,475	7,300	5,175	12,000
Accumulated depreciation	5,843	3,344	2,499	6,140
Net Investment	$ 6,632	$3,956	$2,676	$ 5,860
Depreciation expense	$ 631	$ 389	$ 242	$ 550

*Primarily represents assets not subject to replacement cost such as land, intangibles and unfinished plant.

The Company has selected the method of determining replacement cost that it believed was best suited to the particular functional asset groupings. Technological and environmental changes were considered to the extent possible. Generally, replacement cost (new) of assets located in the U.S. was based on replacing the U.S. productive capacity in total for each of the functions of refining, marketing and chemicals, regardless of the number and location of present facilities. A more detailed description of the basis of calculating replacement cost (new) for each of the asset groupings is as follows:

United States

Refining—Derived from engineering calculations of an estimated national average of the unit cost per daily barrel to replace the total U.S. refining capacity. This average has been verified for reasonableness with outside contractors.

Marketing—Retail outlets were based on engineering estimates of the replacement cost of typical conventional and self-serve stations in various areas throughout the country where the Company operates. Truck and automobile fleets, and marketing equipment other than retail outlets, were determined by direct pricing from recent purchases. Distribution plants were calculated using an average replacement cost per barrel of capacity based on recent construction experience.

Transportation—Pipelines were based on the current Interstate Commerce Commission calculations established for rate-making purposes.

Natural Gas Liquids—Derived primarily from engineering estimates, based on recent construction experience, of the cost to replace the unit capacity of gasoline plants and barges, and the cost to replace with same or equivalent equipment in the case of terminals and pipelines.

Chemicals—Manufacturing facilities were based on engineers' estimates of the current capital cost per unit of productive capacity, utilizing the most modern, optimal sized facilities to replace existing capacities for the various product lines. Such unit capital costs were developed from recent construction costs of similar facilities in the U.S. and from information obtained from outside contractors. Support facilities, as well as non-chemical producing assets, were calculated by applying a construction cost index to the historical costs.

Other—Other productive capacity includes research and development facilities, aircraft, computer facilities, furniture and fixtures and the Corporate headquarters building in Pittsburgh. The headquarters building and the research and development facilities were approximated by outside consulting engineers. The Corporate aircraft was determined using current costs of comparable equipment. The balance of the assets in this category were based on the application of published indexes.

Canada

The replacement cost for Canadian assets was derived as follows: refinery facilities were based on engineering estimates using equipment cost curves and in some instances a general petroleum industry index. The cost curves show trends in refinery construction costs and are updated regularly from new construction data or information obtained from refinery contractors. Chemical facilities were estimated using a combination of cost curves and the application of a petroleum industry index to historic costs or recent cost appraisals. Marketing facilities and other productive capacity were assessed either through use of current costs developed for representative facilities, direct pricing or application of indexes meeting the criteria of the asset group being estimated. Exchange rates at December 31, 1976 were used for translation into U.S. dollars.

European Economic Community

Replacement costs for assets located in countries participating in the EEC were estimated as follows: refinery and chemical plants were based on internal engineering estimates utilizing localized construction cost indexes; the terminaling facility at Bantry Bay was estimated using a recent outside cost appraisal of the assets; all other assets were based on application of gross domestic product indexes issued by the Organization of Economic Cooperation and Development. Exchange rates at December 31, 1976 were used for translation into U.S. dollars.

Tankers

The replacement cost of the tanker fleet was based on the replacement cost (new) to construct the total deadweight tonnage in a configuration of optimum fleet design. Information was obtained from a large data base of new construction costs created and maintained by the Company's engineers. The data base includes information on the cost to construct tankers of different sizes in various countries throughout the world.

Depreciation

Accumulated depreciation of replacement cost was calculated for individual classes or groups of assets using the composite straight-line economic life of the historical cost investments. Replacement cost depreciation for 1976 was developed in the same manner.

INVENTORIES

The Company's calculation of replacement cost for inventories at December 31, 1976 is summarized as follows:

	Historical Cost	Estimated Replacement Cost
	Millions of Dollars (Unaudited)	
LIFO	$ 604	$1,740
FIFO	354	375
Average Cost	284	300
Total	$1,242	$2,415

The replacement cost of crude oil and product inventories recorded on the LIFO or FIFO method have recognized the impact of announced price increases on the foreign crude contained in such inventories. Inventories recorded under the average cost method generally represent items acquired during the current year and, therefore, their replacement cost approximates their book value. The replacement cost of foreign inventories were translated into U.S. dollars at exchange rates in effect at year-end.

Inventory amounts included in the cost of sales for LIFO and average cost inventories approximate current replacement cost since cost of sales is charged with current costs under these inventory methods. If FIFO inventories would have been charged to cost of sales on a replacement basis, the effect before related tax and minority interests, would have been an increase in cost of sales of approximately $40 million for the year ended December 31, 1976.

Note 24—Quarterly Financial Data *(Unaudited)*

	Millions of Dollars (Unaudited)							
	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	1976	1975	**1976**	1975	**1976**	1975	**1976**	1975
Revenues								
Sales and other operating revenues	**$4,278**	$3,925	**$4,211**	$3,803	**$4,631**	$3,978	**$4,997**	$4,132
Other revenues	**68**	69	**77**	46	**55**	52	**86**	37
	4,346	3,994	**4,288**	3,849	**4,686**	4,030	**5,083**	4,169
Deductions								
Purchase costs	**2,419**	1,598	**2,248**	1,916	**2,555**	1,813	**2,797**	1,979
Operating, selling and administrative expenses	**708**	635	**752**	692	**749**	700	**854**	757
Taxes other than income taxes	**485**	589	**519**	486	**542**	612	**551**	527
Depreciation, etc.	**148**	156	**157**	156	**158**	158	**168**	158
Other deductions	**101**	76	**78**	85	**115**	117	**91**	120
	3,861	3,054	**3,754**	3,335	**4,119**	3,400	**4,461**	3,541
Income Before Taxes on Income	**485**	940	**534**	514	**567**	630	**622**	628
Taxes on Income	**287**	745	**326**	354	**375**	455	**404**	458
Net Income	**$ 198**	$ 195	**$ 208**	$ 160	**$ 192**	$ 175	**$ 218**	$ 170
Net Income Per Share	**$ 1.02**	$ 1.00	**$ 1.06**	$ .82	**$ .99**	$ .90	**$ 1.12**	$ .88

Five-Year Financial and Statistical Summary

	1976	1975	1974	1973	1972
		(Dollar Amounts in Millions)			
Total revenues*	$18,403	$16,042	$18,201	$ 9,996	$ 7,708
Income before extraordinary item	$ 816	$ 700	$ 1,065	$ 800	$ 447
Net income	$ 816	$ 700	$ 1,065	$ 800	$ 197**
Cash dividends	$ 336	$ 331	$ 307	$ 296	$ 311
Per-share data					
Income before extraordinary item	$ 4.19	$ 3.60	$ 5.47	$ 4.06	$ 2.15
Net income	$ 4.19	$ 3.60	$ 5.47	$ 4.06	$ .95
Cash dividends	$ 1.73	$ 1.70	$ 1.58	$ 1.50	$ 1.50
Shareholders' equity	$ 35.62	$ 33.17	$ 31.28	$ 27.01	$ 24.89
Financial position at year-end					
Current assets	$ 6,179	$ 5,473	$ 5,774	$ 3,918	$ 2,936
Current liabilities	4,191	3,738	4,064	2,404	1,492
Working capital	1,988	1,735	1,710	1,514	1,444
Properties	6,632	6,236	6,035	5,468	5,418
Investments and other assets	638	716	694	688	970
Employed capital	9,258	8,687	8,439	7,670	7,832
Long-term debt	1,168	1,294	1,471	1,608	1,941
Minority interests	397	353	314	266	247
Other long-term liabilities	751	582	565	467	475
Net assets (shareholders' equity)	$ 6,942	$ 6,458	$ 6,089	$ 5,329	$ 5,169
Total assets	$13,449	$12,425	$12,503	$10,074	$ 9,324
Changes in financial position					
Funds provided by:					
Income before extraordinary item	$ 816	$ 700	$ 1,065	$ 800	$ 447
Noncash income items	746	839	732	760	643
Funds from operations	1,562	1,539	1,797	1,560	1,090
New financing	156	156	75	60	129
Other—net	480	264	280	310	325
	2,198	1,959	2,152	1,930	1,544
Funds used for:					
Properties and business investments	1,378	1,229	1,406	823	726
Reduction of long-term debt and production payments	211	225	243	397	331
Dividends	336	331	307	296	311
Other—net	20	149	—	344	—
	1,945	1,934	1,956	1,860	1,368
Increase in working capital	$ 253	$ 25	$ 196	$ 70	$ 176
Capital and exploration expenditures					
Plant expenditures	$ 1,362	$ 1,131	$ 1,399	$ 784	$ 678
Business investments	16	98	7	39	40
Exploration expense	160	133	125	80	72
Dry hole expense	204	184	130	76	69
	$ 1,742	$ 1,546	$ 1,661	$ 979	$ 859
Wages, salaries and employee benefits	$ 1,113	$ 963	$ 810	$ 739	$ 715
Employees at year-end	53,300	52,100	52,700	51,600	57,500
Shareholders at year-end	356,768	375,191	372,415	347,731	307,230
Weighted average shares outstanding (in thousands)	194,804	194,710	194,658	197,250	207,666

*Years prior to 1976 reclassified to conform to presentation adopted in 1976.

**Net income in 1972 was reduced by an extraordinary charge of $250 million which represented the provision for loss in disposing of certain unprofitable or marginal investments.

	1976	1975	1974	1973	1972
Net crude oil and condensate produced, including participation and long-term purchase arrangements (daily average barrels)					
United States					
California—onshore	**8,600**	7,900	6,100	5,600	6,000
offshore	**5,000**	5,600	6,200	6,900	7,700
	13,600	13,500	12,300	12,500	13,700
Louisiana—onshore	**61,500**	68,200	80,700	96,800	106,000
offshore	**57,000**	50,400	53,300	64,400	76,200
	118,500	118,600	134,000	161,200	182,200
Texas	**144,100**	161,700	183,800	197,900	211,300
Mississippi	**18,300**	20,100	21,700	22,600	24,100
Utah	**9,700**	13,100	15,400	10,000	7,000
New Mexico	**11,400**	11,400	11,300	11,900	13,000
Oklahoma	**9,800**	10,200	11,000	11,700	12,200
Wyoming	**5,800**	5,900	6,500	7,000	7,300
Alabama	**1,200**	1,300	800	900	1,000
Kansas	**1,200**	1,300	1,300	1,500	1,700
Arkansas	**1,300**	1,100	900	800	900
Other	**2,800**	2,400	1,900	1,700	2,200
Total United States	**337,700**	360,600	400,900	439,700	476,600
Canada	**71,000**	79,900	89,200	113,400	103,600
Latin America					
Venezuela—Equity	**—**	146,700	161,400	166,600	157,000
Long-term purchases	**98,000**	—	—	—	—
Ecuador—Equity	**67,400**	49,500	65,300	86,600	31,900
Colombia—Equity	**—**	—	—	—	17,500
Total Latin America	**165,400**	196,200	226,700	253,200	206,400
Middle East					
Kuwait					
Equity	**—**	120,800	531,100	1,039,500	1,569,100
Participation purchases	**—**	86,100	521,000	346,500	—
Long-term purchases	**520,900**	454,300	—	—	—
	520,900	661,200	1,052,100	1,386,000	1,569,100
Iran					
Equity	**—**	—	—	70,600	272,800
Long-term purchases	**310,600**	331,700	293,000	236,200	—
	310,600	331,700	293,000	306,800	272,800
Total Middle East	**831,500**	992,900	1,345,100	1,692,800	1,841,900
Africa					
Nigeria					
Equity	**131,800**	102,200	297,700	364,600	325,400
Participation purchases	**97,500**	79,600	71,400	—	—
	229,300	181,800	369,100	364,600	325,400
Angola—Equity	**77,700**	133,800	150,700	144,200	127,100
Gabon—Equity	**3,200**	4,000	—	—	—
Zaire—Equity	**12,300**	—	—	—	—
Total Africa	**322,500**	319,600	519,800	508,800	452,500
Equity Interest (Other)	**2,200**	2,900	3,000	4,200	4,700
Total net production, including participation and long-term purchases	**1,730,300**	1,952,100	2,584,700	3,012,100	3,085,700
Gross crude oil and condensate produced, including participation and long-term purchase arrangements (daily average barrels)					
United States	**400,700**	426,500	476,500	525,000	566,600
Canada	**106,100**	117,100	127,200	136,300	121,100
Other Foreign	**1,515,300**	1,598,500	2,143,600	2,521,600	2,588,200
Total gross production, including participation and long-term purchases	**2,022,100**	2,142,100	2,747,300	3,182,900	3,275,900

Total operating data in the five-year statistical summary includes 100 percent of volumes of all consolidated subsidiaries (more than 50 percent owned) and equity interest in companies owned 50 percent or less.

Five-Year Financial and Statistical Summary (continued)

	1976		1975		1974		1973		1972	
	Gross	**Net**	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Oil and gas acreage at December 31 (thousands of acres)										
United States										
Producing										
Onshore	**4,232**	**1,576**	3,878	1,523	3,580	1,461	3,505	1,441	3,370	1,443
Offshore	**233**	**158**	213	156	185	146	178	144	177	149
	4,465	**1,734**	4,091	1,679	3,765	1,607	3,683	1,585	3,547	1,592
Nonproducing										
Onshore	**18,203**	**10,491**	17,514	9,912	16,837	9,558	12,564	7,439	11,373	6,204
Offshore	**523**	**286**	483	266	381	172	259	118	156	68
	18,726	**10,777**	17,997	10,178	17,218	9,730	12,823	7,557	11,529	6,272
Total	**23,191**	**12,511**	22,088	11,857	20,983	11,337	16,506	9,142	15,076	7,864
Canada										
Producing	**1,831**	**1,003**	1,622	874	1,614	903	1,559	855	1,483	818
Nonproducing	**86,902**	**24,169**	91,233	25,203	80,772	23,728	86,264	24,813	54,127	23,272
Total	**88,733**	**25,172**	92,855	26,077	82,386	24,631	87,823	25,668	55,610	24,090
North Sea—nonproducing	**2,031**	**760**	2,141	821	2,533	958	25,080	4,431	24,928	4,355
Africa										
Producing	**5,181**	**3,037**	4,934	2,914	4,934	2,914	4,793	3,570	4,793	4,793
Nonproducing	**12,205**	**5,012**	26,747	20,509	30,499	24,055	27,852	22,202	27,852	21,583
Total	**17,386**	**8,049**	31,681	23,423	35,433	26,969	32,645	25,772	32,645	26,376
Latin America										
Producing	—	—	2,824	1,043	2,824	1,195	2,822	1,194	2,823	1,194
Nonproducing	—	—	443	167	443	167	988	556	17,313	8,125
Total	—	—	3,267	1,210	3,267	1,362	3,810	1,750	20,136	9,319
Middle East—producing	—	—	—	—	1,648	330	1,712	856	48,683	4,144

For additional information regarding the Company's oil and gas acreage, see Form 10-K, Item 3 on pages 54 to 56.

	1976		1975		1974		1973		1972	
	Gross	**Net**	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Wells capable of producing at December 31										
United States										
Oil	**33,196**	**12,037**	32,476	11,726	33,661	13,519	30,876	13,181	30,274	13,181
Gas	**3,502**	**1,719**	3,397	1,655	3,975	1,754	2,954	1,705	2,784	1,635
Total	**36,698**	**13,756**	35,873	13,381	37,636	15,273	33,830	14,886	33,058	14,816
Canada										
Oil	**5,487**	**1,207**	5,471	1,175	5,451	1,184	5,578	1,203	5,675	1,223
Gas	**920**	**230**	867	225	839	216	829	212	810	207
Total	**6,407**	**1,437**	6,338	1,400	6,290	1,400	6,407	1,415	6,485	1,430
Other Foreign										
Oil	**422**	**234**	5,289	2,108	5,903	2,365	5,738	2,438	5,965	2,504
Gas	**3**	**1**	22	8	23	8	23	9	43	10
Total	**425**	**235**	5,311	2,116	5,926	2,373	5,761	2,447	6,008	2,514
Total	**43,530**	**15,428**	47,522	16,897	49,852	19,046	45,998	18,748	45,551	18,760
Wells drilled during the year										
United States										
Oil	**1,170**	**474**	919	466	879	450	624	289	568	342
Gas	**169**	**99**	129	62	100	41	73	40	69	45
Dry	**138**	**98**	116	67	110	68	89	59	99	65
Total	**1,477**	**671**	1,164	595	1,089	559	786	388	736	452
Canada										
Oil	**17**	**12**	16	8	30	12	25	7	35	5
Gas	**70**	**29**	41	18	27	10	25	13	14	5
Dry	**37**	**18**	37	19	27	15	46	29	25	15
Total	**124**	**59**	94	45	84	37	96	49	74	25
Other Foreign										
Oil	**36**	**15**	126	51	231	94	175	103	179	76
Gas	**4**	**2**	2	—	—	—	—	—	3	2
Dry	**25**	**10**	52	22	61	27	65	39	66	31
Total	**65**	**27**	180	73	292	121	240	142	248	109
Total	**1,666**	**757**	1,438	713	1,465	717	1,122	579	1,058	586

Gross wells represent the total number of wells in which all or part of the working interest is owned by the Company.
Net wells represent only that part of the working interest applicable to the Company, that is, the sum of all fractional interests.

	1976	1975	1974	1973	1972
Net natural gas liquids produced (daily average barrels)					
United States	**60,800**	64,900	75,400	80,100	84,300
Canada	**9,800**	10,900	10,000	11,500	10,200
Latin America	—	2,000	3,200	3,900	3,500
Middle East	—	10,200	26,800	32,700	30,000
Total	**70,600**	88,000	115,400	128,200	128,000
Natural gas liquids sold (daily average barrels)					
United States	**100,900**	90,000	86,700	122,300	130,100
Canada	**29,700**	27,100	24,900	24,600	25,200
Latin America	**3,600**	2,800	6,500	5,500	7,100
Europe	**8,000**	8,300	8,100	8,000	6,800
Middle East	**400**	10,900	24,300	35,600	27,600
Asia	**4,200**	3,400	2,400	1,800	1,500
Total	**146,800**	142,500	152,900	197,800	198,300
Net natural gas produced (thousand cubic feet per day)					
United States					
Texas	**794,100**	974,600	1,118,900	1,234,000	1,325,800
Louisiana—Offshore	**399,600**	429,500	436,600	536,900	623,700
Onshore	**198,100**	245,400	302,900	368,300	416,800
New Mexico	**168,100**	154,400	156,100	150,100	142,900
Oklahoma	**69,100**	71,300	69,200	66,900	76,100
Other U.S.	**83,500**	83,200	99,200	120,400	130,900
	1,712,500	1,958,400	2,182,900	2,476,600	2,716,200
Canada	**322,600**	369,300	405,500	434,300	448,500
Latin America	—	98,700	99,500	91,000	78,000
Middle East	—	7,000	340,500	358,500	329,400
Total	**2,035,100**	2,433,400	3,028,400	3,360,400	3,572,100
Natural gas sold (thousand cubic feet per day)					
United States					
Regulated					
Texas Eastern	**361,900**	357,500	391,200	509,100	604,000
Other	**991,900**	1,172,900	1,211,800	1,358,500	1,467,000
	1,353,800	1,530,400	1,603,000	1,867,600	2,071,000
Nonregulated	**510,600**	540,300	701,700	764,100	811,000
	1,864,400	2,070,700	2,304,700	2,631,700	2,882,000
Canada	**455,000**	481,100	492,200	499,700	512,000
Latin America	—	123,300	122,000	99,500	77,800
Middle East	—	7,000	44,500	114,600	103,800
Total	**2,319,400**	2,682,100	2,963,400	3,345,500	3,575,600
United States imports (daily average barrels)					
Crude oil from					
Nigeria	**203,400**	118,800	160,900	59,700	25,000
Libya	**43,700**	13,800	—	—	1,900
Zaire	**20,500**	—	—	—	—
United Arab Emirates	**17,900**	—	—	—	—
Algeria	**8,400**	5,400	1,400	2,800	1,700
Angola	**6,200**	60,900	34,200	37,600	4,900
Gabon	**5,900**	2,900	—	—	—
Canada	**5,700**	14,600	22,400	28,700	23,600
Ecuador	**4,700**	6,300	11,200	4,100	3,500
Saudi Arabia	**2,700**	3,100	1,300	2,400	—
Venezuela	**1,200**	13,900	19,800	18,900	9,900
Other	**5,800**	9,000	13,700	5,100	5,100
Total	**326,100**	248,700	264,900	159,300	75,600
Refined products	**18,500**	18,700	68,200	73,100	72,600
Chemicals sold (thousands of tons)					
United States					
Benzene and other aromatics	**820**	620	840	840	660
Ethylene and other olefins	**820**	620	730	730	620
Plastics	**250**	220	250	260	220
Blasting materials	**190**	220	220	220	180
Other	**780**	770	880	1,200	1,030
	2,860	2,450	2,920	3,250	2,710
Foreign					
Benzene and other aromatics	**450**	370	660	580	700
Ethylene and other olefins	**740**	470	580	660	400
Plastics	**80**	110	110	110	70
Other	**830**	730	910	770	1,130
	2,100	1,680	2,260	2,120	2,300
Total	**4,960**	4,130	5,180	5,370	5,010

Five-Year Financial and Statistical Summary (continued)

	Refining Capacity 12-31-76	**1976**	1975	1974	1973	1972
Crude oil processed (daily average barrels)*						
United States						
Port Arthur, Texas	312,100	**304,500**	289,200	299,500	307,000	273,500
Philadelphia, Pennsylvania	204,200	**153,500**	156,600	176,700	164,000	162,300
Alliance, Louisiana	195,900	**200,700**	134,200	154,200	181,600	166,100
Toledo, Ohio	50,300	**42,800**	46,800	49,900	49,200	45,900
Santa Fe Springs, California	51,500	**49,200**	45,700	47,100	45,600	42,000
Cincinnati, Ohio	42,700	**43,600**	38,000	40,700	42,400	40,400
Venice, Louisiana	28,700	**18,400**	19,200	20,200	17,400	15,700
Hercules, California	—	**1,900**	19,900	19,700	21,000	15,200
Processed by others for Gulf	—	**—**	—	5,000	—	8,200
Total United States	885,400	**814,600**	749,600	813,000	828,200	769,300
Canada						
Alberta	83,200	**72,400**	77,900	77,600	70,200	59,300
Quebec	77,300	**63,900**	62,300	69,100	70,400	60,800
Ontario	79,100	**60,900**	58,600	62,700	57,300	56,100
Nova Scotia	81,000	**46,000**	53,000	71,300	79,900	77,500
British Columbia	44,900	**44,600**	43,900	44,200	43,800	37,500
Saskatchewan	9,300	**6,300**	5,400	3,700	3,300	4,300
Processed by others for Gulf	—	**1,300**	2,300	1,900	2,300	1,700
Total Canada	374,800	**295,400**	303,400	330,500	327,200	297,200
Latin America						
Venezuela	—	**—**	75,500	96,000	85,600	128,500
Puerto Rico	37,800	**34,600**	35,200	34,200	26,700	33,900
Ecuador	—	**7,300**	7,200	7,000	6,300	5,900
Total Latin America	37,800	**41,900**	117,900	137,200	118,600	168,300
Europe						
Wales	103,000	**49,500**	45,800	66,100	93,600	75,000
Netherlands	94,000	**64,600**	49,700	72,300	83,000	77,900
Denmark	90,000	**74,100**	70,000	88,100	90,900	91,200
Italy	81,000	**64,100**	59,100	68,300	57,200	47,900
Equity Interest						
France (18%)	57,200	**50,800**	54,000	65,000	62,000	56,500
Spain (34%)	38,400	**47,300**	48,300	49,100	53,100	44,600
Switzerland (25%)	15,000	**14,600**	13,700	15,200	13,100	11,500
Germany	—	**—**	—	—	—	23,700
Processed by others for Gulf	—	**20,700**	35,100	38,700	34,900	41,600
Total Europe	478,600	**385,700**	375,700	462,800	487,800	469,900
Middle East						
Kuwait	—	**—**	3,600	59,100	76,200	93,000
Iran	—	**—**	—	—	4,700	21,000
Processed by others for Gulf (Iran)	—	**15,100**	20,400	20,800	15,900	—
Total Middle East	—	**15,100**	24,000	79,900	96,800	114,000
Asia						
Taiwan	12,500	**11,300**	12,100	9,600	11,400	10,300
Philippines	—	**—**	—	—	—	15,600
Equity Interest						
Korea (50%)	107,500	**100,600**	89,600	82,800	74,700	68,900
Okinawa (45%)	43,200	**32,000**	28,600	35,200	31,400	33,500
Total Asia	163,200	**143,900**	130,300	127,600	117,500	128,300
Total	1,939,800	**1,696,600**	1,700,900	1,951,000	1,976,100	1,947,000
Percent of refining capacity utilized						
United States		**92**	87	93	96	90
Foreign		**79**	75	83	85	83

*Includes crude oil processed by the Company for its own account and for others, and by others for the Company's account.

	1976	1975	1974	1973	1972
Refined products sold (daily average barrels)					
United States	**828,600**	805,700	860,600	911,800	812,600
Canada	**258,000**	263,500	268,300	267,700	245,000
Latin America	**60,500**	79,500	83,100	76,700	86,900
Europe	**318,900**	320,100	297,400	352,000	349,800
Middle East	**4,900**	18,600	50,900	75,900	85,600
Asia	**138,400**	122,800	112,500	107,000	106,200
Total	**1,609,300**	1,610,200	1,672,800	1,791,100	1,686,100
Refined products sold (daily average barrels)					
United States					
Gasoline	**479,600**	467,900	476,300	502,600	428,000
Distillate	**213,500**	208,700	232,300	229,400	220,800
Residual	**61,500**	64,000	69,200	97,000	82,500
Kerosene	**41,000**	39,800	47,000	45,700	45,300
Lubricating oils	**10,900**	10,000	13,000	14,900	13,200
Other manufactured oils	**22,100**	15,300	22,800	22,200	22,800
Total United States	**828,600**	805,700	860,600	911,800	812,600
Canada					
Gasoline	**106,500**	105,800	108,500	111,800	93,400
Distillate	**82,100**	81,900	85,400	84,400	81,700
Residual	**38,900**	42,100	41,900	40,800	42,200
Kerosene	**2,800**	1,600	600	500	400
Lubricating oils	**2,100**	1,900	2,000	2,000	1,800
Other manufactured oils	**25,600**	30,200	29,900	28,200	25,500
Total Canada	**258,000**	263,500	268,300	267,700	245,000
Other Foreign					
Gasoline	**81,000**	89,800	82,500	95,400	100,600
Distillate	**159,400**	167,900	151,000	185,800	187,200
Residual	**200,000**	214,400	239,100	253,800	261,700
Kerosene	**29,100**	24,000	21,200	24,200	23,900
Lubricating oils	**8,600**	6,500	9,600	10,700	9,500
Other manufactured oils	**44,600**	38,400	40,500	41,700	45,600
Total Other Foreign	**522,700**	541,000	543,900	611,600	628,500
Total	**1,609,300**	1,610,200	1,672,800	1,791,100	1,686,100
Marketing retail outlets*					
United States					
Dealer operated	**17,533**	18,182	19,484	22,146	24,344
Company operated	**1,323**	1,018	443	135	42
	18,856	19,200	19,927	22,281	24,386
Canada	**3,884**	4,373	4,814	5,184	5,234
Europe	**4,055**	4,081	4,234	4,554	5,015
Other Foreign	**283**	369	376	446	494
Total	**27,078**	28,023	29,351	32,465	35,129
*Excludes equity interest retail outlets					
Coal mined (thousands of tons)					
United States					
Surface	**6,500**	5,700	6,000	6,500	5,900
Underground	**1,400**	1,600	1,500	1,600	1,800
Total	**7,900**	7,300	7,500	8,100	7,700
Uranium produced (thousands of pounds)					
Canada	**1,900**	370	—	—	—

GULF OIL CORPORATION

FORM 10-K ANNUAL REPORT

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1976

Item 1. Business

The Company is an integrated petroleum company engaged principally in the production, purchase, transportation, refining and marketing of crude petroleum and natural gas and products derived therefrom. The Company also receives revenues from other activities including chemicals, coal, uranium and other nonpetroleum related products and services. Geographic distribution by major business segments of sales and other operating revenues and income before extraordinary items for the five years ended December 31, 1976 was as follows:

	Millions of Dollars				
	Years Ended December 31				
	1976	1975	1974	1973	1972
Sales and other operating revenues (includes consumer excise taxes)					
United States					
Petroleum	**$ 7,247**	$ 6,614	$ 6,667	$4,260	$3,630
Chemicals	**669**	536	539	285	225
Nuclear	**—**	—	21	33	34
Minerals	**183**	75	53	47	42
Other	**1**	5	—	1	13
	8,100	7,230	7,280	4,626	3,944
Canada					
Petroleum	**2,140**	1,788	1,557	1,108	926
Chemicals	**127**	100	97	63	63
Minerals	**23**	2	—	—	—
	2,290	1,890	1,654	1,171	989
Other Foreign					
Petroleum	**7,448**	6,541	8,759	3,939	2,616
Chemicals	**266**	176	259	107	75
Minerals	**10**	—	—	—	—
Other	**3**	1	—	—	—
	7,727	6,718	9,018	4,046	2,691
	$18,117	$15,838	$17,952	$9,843	$7,624
Income (loss)					
United States					
Petroleum	**$ 365**	$ 459	$ 420	$ 364	$ 357
Chemicals	**94**	61	96	10	(3)
Nuclear	**(9)**	(10)	(94)	(132)	(31)
Minerals	**(10)**	(16)	(15)	(6)	(3)
Other	**—**	(16)	(6)	(10)	1
	440	478	401	226	321
Canada					
Petroleum	**102**	104	68	64	45
Chemicals	**7**	10	9	—	(6)
Minerals	**5**	(10)	(7)	(2)	(2)
	114	104	70	62	37
Other Foreign					
Petroleum	**215**	109	526	496	105
Chemicals	**47**	13	71	17	(16)
Nuclear	**(2)**	(4)	(3)	(1)	—
Other	**2**	—	—	—	—
	262	118	594	512	89
	$ 816	$ 700	$ 1,065	$ 800	$ 447

Operating data for the Company and consolidated subsidiaries appears on pages 44 to 49 of the accompanying 1976 Annual Report to Shareholders and is incorporated herein by reference in further response to the requirements of this item.

During 1976, the Company received payment from the Nigerian government covering its purchase, retroactive to 1974, of 55 percent of the Company's oil exploration and producing concessions and, after negotiations aimed at an orderly withdrawal from Ecuador, the Ecuadorian government issued a decree which authorized its national oil company to purchase the Company's holdings effective December 31, 1976. In late April 1976, the Company resumed Angolan operations, which had been suspended temporarily in late December 1975. During 1975, the Company's remaining assets and operations in Kuwait and its concession rights and properties in Venezuela were nationalized. Additional information concerning the status of the Company's negotiations and arrangements with these and other foreign oil producing countries is included in Note 17 of Notes to Financial Statements appearing on page 37 of the accompanying 1976 Annual Report to Shareholders and is incorporated herein by reference in further response to the requirements of this item.

General Atomic Company is a partnership owned and operated on a 50-50 basis by the Company and Scallop Nuclear, Inc., a company of the Royal Dutch/Shell Group. Continuing escalation of costs, other problems confronting General Atomic in the commercialization of the HTGR and uncertainties generally surrounding the development of nuclear power led to several contract cancellations by customers. As a result of these developments, in 1975 and early 1976 General Atomic agreed to the termination of its remaining commitments and currently has no commercial reactor orders. Information concerning General Atomic is included in Note 10 of Notes to Financial Statements appearing on page 32 of the accompanying 1976 Annual Report to Shareholders and is incorporated herein by reference in further response to the requirements of this item.

The Company's domestic operations have been subject to regulatory controls granted to the FEA and FPC by Congress. These regulations cover a wide spectrum of activities in the domestic oil and gas industry and significantly affect domestic oil and gas revenue and cost levels. Details regarding certain FEA and FPC proceedings are included in Notes 16 and 19 of Notes to Financial Statements appearing on pages 36 and 38 of the accompanying 1976 Annual Report to Shareholders and are incorporated herein by reference in further response to the requirements of this item.

The Company is subject to various pollution control regulations of federal, state, local and foreign governments and has made and will continue to make substantial expenditures in its efforts to comply with these requirements. These expenditures aggregated approximately $195 million during 1976 and the Company expects that during 1977 approximately $261 million will be spent. These expenditures are expected to increase significantly as anticipated legislative and regulatory changes go into effect.

The petroleum industry is highly competitive. The Company competes with other petroleum companies in the discovery and development of new sources of supply, the transportation of crude and refined products and the refining, distribution and marketing of petroleum and chemical products. The petroleum industry also competes with other industries in supplying other forms of energy and other products.

In recent years, the normal problems confronting the petroleum industry have been compounded by the actions of foreign oil producing countries including reduction of production, embargoes on petroleum shipments to the United States and other countries, unilateral changes in the posted or tax-reference price for crude oil, and participation by foreign countries in ownership of operations in their territories. Tax legislation recently passed and other pending tax legislation both in the U.S. and other countries further increases the problems of the petroleum industry regarding costs and consequently the availability of adequate supplies of crude oil. During 1976, the U.S. Senate considered a bill which would have required the divestiture of the largest U.S. integrated oil companies. Although this bill was later withdrawn, it cannot be assumed that the divestiture issue will not be reconsidered by Congress. The Company cannot predict the extent to which operations and earnings will be affected by these and other developments such as government regulations involving the passthrough of cost increases, production, imports, product allocations, environmental quality control standards, transportation and currency restrictions, as well as labor conditions, technological innovations and further competition.

The Company maintains research facilities at several locations, at which approximately 1,408 and 1,435 employees were engaged in full time research activities at December 31, 1976 and 1975, respectively. Research and development expenditures were approximately $64 and $60 million in 1976 and 1975, respectively.

At December 31, 1976, the Company had approximately 53,300 employees.

Item 2. Summary of Operations

	1976	1975	1974	1973	1972
	Millions of Dollars				
	Years Ended December 31				
STATEMENT OF INCOME					
REVENUES					
Sales and other operating revenues (includes consumer excise taxes)					
United States	**$ 8,100**	$ 7,230	$ 7,280	$ 4,626	$ 3,944
Canada	**2,290**	1,890	1,654	1,171	989
Other Foreign	**7,727**	6,718	9,018	4,046	2,691
	18,117	15,838	17,952	9,843	7,624
Interest income	**189**	183	180	107	75
Equity in earnings (losses)	**40**	(23)	16	14	18
Other revenues	**57**	44*	53*	32*	(9)*
	18,403	16,042	18,201	9,996	7,708
DEDUCTIONS					
Purchased crude oil and products	**10,019**	7,306	8,803	3,034	1,937
Operating expenses	**1,400**	1,251	1,439	1,225	1,110
Selling, general and administrative expenses	**1,299**	1,216*	1,128*	933*	896*
Consumer excise taxes	**1,666**	1,570	1,494	1,426	1,381
Sales, use, ad valorem and other taxes	**431**	644	479	265	228
Depreciation, depletion, amortization and retirements	**631**	628	609	610	576
Exploration and dry hole expenses	**364**	317	255	156	141
Federal Energy Administration entitlements	**214**	224	14	—	—
Interest on long-term financing	**109**	114	121	135	147
Income applicable to minority interests	**62**	60	44	36	22
	16,195	13,330	14,386	7,820	6,438
INCOME BEFORE TAXES ON INCOME	**2,208**	2,712	3,815	2,176	1,270
TAXES ON INCOME					
United States	**226**	120	61	35	6
Foreign	**1,166**	1,892	2,689	1,341	817
	1,392	2,012	2,750	1,376	823
INCOME BEFORE EXTRAORDINARY ITEM	**816**	700	1,065	800	447
Extraordinary item—discontinued operations	**—**	—	—	—	(250)
NET INCOME	**816**	700	1,065	800	197
RETAINED EARNINGS AT BEGINNING OF YEAR	**5,320**	4,951	4,193	3,689	3,803
CASH DIVIDENDS	**(336)**	(331)	(307)	(296)	(311)
RETAINED EARNINGS AT END OF YEAR	**$ 5,800**	$ 5,320	$ 4,951	$ 4,193	$ 3,689
ESTIMATED LOSSES FROM DISCONTINUED OPERATIONS					
Net (loss)	**$ —**	$ —	$ —	$ —	$ (27)
Per share	**$ —**	$ —	$ —	$ —	$ (.13)
PER-SHARE DATA					
Income before extraordinary item	**$ 4.19**	$ 3.60	$ 5.47	$ 4.06	$ 2.15
Extraordinary item	**—**	—	—	—	(1.20)
Net income	**$ 4.19**	$ 3.60	$ 5.47	$ 4.06	$ .95
Cash dividends	**$ 1.73**	$ 1.70	$ 1.58	$ 1.50	$ 1.50
Weighted average shares outstanding (in thousands)	**194,804**	194,710	194,658	197,250	207,666

*Prior years reclassified to conform to presentation adopted in 1976.

Effective January 1, 1975 the Company adopted Statement No. 9 of the Financial Accounting Standards Board which required interperiod tax allocation to be practiced on certain timing differences. The Company implemented this change on a retroactive basis by charging beginning 1975 retained earnings with the retroactive effect of $240 million. Due to the immaterial effect of this change on net income for the individual years 1974 through 1972, the respective prior years' income statements were not restated and, the Company reflected the $240 million by restating beginning retained earnings and the liability for deferred income taxes in each of those years. Had prior years' income statements been restated,

the effect upon previously reported net income and retained earnings would have been as follows:

	Millions of Dollars				
	Net Income As Reported	Deferred Income Taxes	Net Income If Restated	Retained Earnings As Reported	Retained Earnings If Restated
1974	$1,065	$1	$1,066	$5,191	$4,951
1973	800	8	808	4,433	4,192
1972	197	3	200	3,929	3,680

A report, dated December 30, 1975, of a Special Review Committee, appointed by the Company's Board of Directors, concluded that during the period 1960-1974 a total of approximately $12.3 million of Corporate funds had been used for political contributions and related purposes, some of which were lawful as well as others which were unlawful. The report indicated that somewhat over $7 million of this amount was expended by the Company abroad, most of it under circumstances which the Committee found to be lawful or as to the legality of which the Committee expressed no view. In addition, the Committee indicated that somewhat less than $5 million had been made available for political expenditures in the U.S. much of which could be characterized as illegal. Additional information concerning these matters is included under Item 5, Legal Proceedings.

Those portions of the $12.3 million recorded in the years 1974 through 1972 and charged as operating expenses in the Company's respective income statements for those years are as follows:

	Millions of Dollars Years Ended December 31 1974	1973	1972
United States	$0.0	$0.2	$0.4
Foreign	0.2	0.1	0.6
Total	$0.2	$0.3	$1.0

During the period 1974 through 1972 approximately one hundred twenty thousand dollars of the $12.3 million were disbursed from funds which were not recorded on the books of the Company and therefore are not reflected in the respective income statements for the years set forth above.

During 1976 and 1975 small individual payments aggregating approximately twelve thousand and sixty-five thousand dollars, respectively, were paid to foreign citizens and government employees as gifts and for matters such as expediting personnel and material movements.

In the course of regular internal audits during 1976, it was noted that funds deposited in four collection accounts were temporarily unrecorded until transferred to regular company disbursement accounts. All such funds have been properly recorded in the accounts and reflected in the Company's financial statements, and were used only for satisfying lawful obligations of the Company.

Management's Discussion and Analysis of the Summary of Operations

Information with respect to the Company's results of operations for the fourth quarter and full year 1976 appears in the section entitled "Financial Review" on page 22 of the accompanying 1976 Annual Report to Shareholders and, in accordance with the provisions of General Instruction F, is incorporated herein by reference.

The following information is furnished in further response to the requirements of this item:

1976 Versus 1975

Revenues

Sales and other operating revenues, United States—Increased by $870 million, or 12 percent, principally reflecting increases in the average sales prices of crude oil, natural gas and refined products. Revenues in the U.S. also benefited from a three-percent increase in sales volumes of refined products and 17 percent in chemicals.

Sales and other operating revenues, Canada—Increased by $400 million, or 21 percent, primarily due to higher Canadian crude oil, natural gas and gas liquids prices, which more than offset reduced Canadian production resulting from that government's restrictions on crude oil exporting.

Sales and other operating revenues, Other Foreign—Increased $1,009 million, or 15 percent, as a result of the general economic recovery in many countries where the Company operates, the initiation of production in Zaire during 1976 and the increase in chemical sales volumes of 34 percent.

Equity in earnings (losses)—Increased $63 million, principally as a result of reduced operating losses of the Company's nuclear partnership, the inclusion in 1975 of a $14 million loss provision in its real estate operations and improved earnings from foreign associated companies.

Deductions

Purchased crude oil and products—Increased $2,713 million, or 37 percent, as a result of greater crude oil imports, increased volumetric purchases of natural gas to meet contract requirements and higher purchase costs from Venezuela and Kuwait as explained below in the discussion of foreign income taxes.

Operating expenses—Increased $149 million, or 12 percent, reflecting increases in the cost of utilities, wages and salaries, and general repair and maintenance expenses.

Sales, use, ad valorem and other taxes—Decreased $213 million, or 33 percent, principally as a result of the elimination of additional import fees, and the absence of additional tax assessments imposed by the Kuwait government on the Company's equity production in 1975.

Exploration and dry hole expenses—Increased $47 million, or 15 percent, reflecting increased wildcat well drilling activity, especially offshore Texas and California, and an increase in geophysical and geological activity.

Taxes on income, United States—Increased $106 million, or 88 percent, as a result of the increase in U.S. source earnings as well as the changes in the U.S. tax laws, offset partially by increased investment tax credits.

Taxes on income, Foreign—Decreased $726 million, or 38 percent, primarily due to the absence in 1976 of foreign income taxes relating to the Company's former equity production in Kuwait and Venezuela and the shutdown of operations in Angola during the first quarter of 1976. Beginning in 1976, the Company's total cost of oil purchased from Venezuela and Kuwait is reflected as purchase costs whereas in previous years, part of the Company's costs included income taxes paid on equity production.

1975 Versus 1974

Revenues

Sales and other operating revenues, Canada—Increased by $236 million, or 14 percent, primarily as a result of increases in the price of Canadian crude oil and the higher allowable selling prices for natural gas and natural gas liquids.

Sales and other operating revenues, Other Foreign—Decreased by $2,300 million, or 26 percent, reflecting the take-over by the Kuwait government of much of the Company's traditional third-party crude sales from Kuwait production. Additional reasons for this reduction were the stagnant economy abroad and the tightening control by members of OPEC over crude oil production and costs.

Equity in earnings (losses)—Decreased $39 million, mainly as a result of inclusion of the Company's equity share of losses from the nuclear partnership which had been fully consolidated in the Statement of Income in prior years, and equity losses of the real estate subsidiaries.

Deductions

Purchased crude oil and products—Decreased $1,497 million, or 17 percent, as a result of reduced crude oil purchases from Kuwait and other foreign oil producing countries and reduced demand in foreign countries.

Operating expenses—Decreased $188 million, or 13 percent, primarily as a result of reduced marine charter hire expenses.

Sales, use, ad valorem and other taxes—Increased $165 million, or 34 percent, as a direct result of the additional import fees imposed during 1975.

Exploration and dry hole expenses—Increased $62 million, or 24 percent, due mainly to increased expenditures for oil and gas exploration in the U.S. and increased wildcat well drilling costs.

Federal Energy Administration entitlements—Increased $210 million due to a full year under the program in 1975 as opposed to one month in 1974.

Taxes on income, United States—Increased $59 million, or 97 percent, principally as a result of the virtual elimination of percentage depletion by the Tax Reduction Act of 1975 and a decrease in the investment tax credit.

Taxes on income, Foreign—Decreased $797 million, or 30 percent, primarily as a result of the Company's loss of equity production in Kuwait and reduced production in Nigeria.

Item 3. Properties

In accordance with the provision of General Instruction F, information in response to the requirements of paragraph (a) of this item is contained in Notes 8 and 9 of Notes to Financial Statements which appear on page 31 of the accompanying 1976 Annual Report to Shareholders and are incorporated herein by reference.

Oil and Gas Reserves

The following table sets forth estimates of the net proved reserves of crude oil and condensate, of natural gas liquids and of natural gas of the Company as at December 31, 1976. Net reserves are estimated after deduction of royalties and, therefore, represent only that production which is owned by the Company and its subsidiaries. In the United States, royalties are generally based on a fixed fractional interest. Therefore, royalties will fluctuate in direct proportion to fluctuations in reserve estimates. In Canada, government royalty rates can vary depending on prices, production volumes, the timing of initial production and changes in legislation. Due to the uncertainty of future royalty rates, the net Canadian reserves have been calculated on the basis of the royalty rate experienced in late 1976. Estimates of proved developed reserves include only those reserves which can be expected to be recovered through existing wells with existing equipment and operating methods. Estimates of proved undeveloped future net recoverable reserves include only those reserves which are expected to be recovered on undrilled acreage from new wells which are virtually certain of production when drilled, or from presently existing wells which would require relatively major expenditures to effect recompletion. The figures presented are believed to be reasonable estimates of reserves which may be expected to be recoverable commercially at current prices and costs under existing regulatory practices and with existing conventional equipment and operating methods. They do not include reserves that may be recoverable after the expiration of leases and concessions now held by the Company and do not include quantities which may be found by new discoveries in the future, by extensions of the areas now classified as proved in reservoirs presently known to be productive, or by improved producing techniques not yet pilot-tested or installed. While the Company anticipates that in certain fields additional wells will continue to be drilled in order to maintain or increase the rate of production or improve the recovery performance, these factors have also been excluded from the following estimates of proved reserves.

Under these circumstances, present estimates of oil and gas reserves at December 31, 1976 are as follows:

	Estimated Reserves		
	Net Crude Oil And Condensate (Millions of Barrels)	Net Natural Gas Liquids (Millions of Barrels)	Net Natural Gas (Trillions of Cubic Feet)
United States			
Proved Developed	976	185	6.1
Proved Undeveloped	16	5	.2
Canada			
Proved Developed	254	56	1.5
Proved Undeveloped	3	3	.5*
Syncrude—Proved Undeveloped	191**	—	—
North Sea			
Proved Undeveloped	126	—	.1

* Natural gas reserves in the Mackenzie Delta are not included as their recovery depends upon approval and construction of a pipeline to transport the gas to markets. Gulf Canada's share of gross reserves in the Parsons Lake area of the Mackenzie Delta are estimated to be approximately one trillion cubic feet.

** Synthetic crude oil reserves resulting from Gulf Canada's interest in the Syncrude Canada Limited project in the Athabasca tar sands are shown in gross barrels as the level of royalties cannot be reasonably predicted. The Alberta government's share from the Syncrude project is 50 percent of the net profits, as defined in an agreement between the project participants and the government, with an option to convert to 7.5 percent gross royalty. On either basis, the Alberta government has the right to take its share in kind. These reserves will be extracted by mining and processing tar sands.

The Company has additional proved reserves of oil and gas in various countries in Africa. In recent years there have been significant changes in ownership of foreign reserves which have resulted from participation in and nationalization of producing properties by certain governments of foreign oil producing countries, and the reserves in such countries are subject to continuing changes in ownership. In addition, the Company has not obtained permission for the release of reserve information from the foreign governments in which the Company has reserve interests. For these reasons, the Company does not believe it appropriate to present reserve information with respect to these foreign areas.

In addition to the above reserves, the Company has formal and informal purchase arrangements with several governments of foreign oil producing countries which give it the right to purchase approximately 746,000 barrels per day of crude oil. At the Company's option, the average daily volume can be increased or decreased by 10 percent and the arrangements contain quarterly price adjustment and phase-out provisions. The Company is a member of the Iranian Consortium and under an agreement between the Iranian government and the Consortium, the Company has the right to lift certain volumes of crude oil for export. At present, the Company's share of the crude oil volume available is approximately 338,000 barrels per day.

Availability of Oil and Gas

The availability of oil and gas from the present reserves, described above, and from contract supplies through December 31, 1977 is based on an estimate of that quantity of oil and gas which can be produced from current proved developed reserves using presently installed equipment under existing economic and operating conditions. These estimates have been based on past performance and represent an amount of oil and gas that can be produced from existing proved developed reserves under normal operations with current prices and costs. Under these circumstances, present estimates of the availability of oil and gas during 1977 are as follows:

	Net Crude Oil and Condensate (Millions of Barrels)	Net Natural Gas Liquids (Millions of Barrels)	Net Natural Gas (Billions of Cubic Feet)
United States	119	19	566
Canada	26	4	117

Additional information relating to certain gas sales contracts and legal proceedings instituted against the Company in connection with the gas sales contracts is contained in Note 16 of Notes to Financial Statements on page 36 of the accompanying 1976 Annual Report to Shareholders and is incorporated herein by reference in further response to the requirements of this item.

Estimates Included in Other Reports

The Company is not required to file, and has not filed, any reserve estimates on a recurring basis with respect to its total owned proved reserves with any federal or foreign governmental regulatory authority or agency other than the SEC. Information concerning the Company's reserves has, however, been provided to various governmental regulatory authorities and agencies, including the FEA, the FTC and the FPC on a special request basis. Such information has been compatible with the data furnished to the SEC, although not necessarily directly comparable due to special requirements of the individual requests, such as requirements to report in some instances on a gross, net or total operator basis and requirements to report in terms of smaller units.

Other Information

In accordance with General Instruction F, information with respect to net production of crude oil and condensate, natural gas and natural gas liquids, gross and net wells drilled and gross and net producing acreage is contained in the Five-Year Financial and Statistical Summary which appears on pages 44 through 49 of the accompanying 1976 Annual Report to Shareholders and is incorporated herein by reference. Additional information regarding the Company's drilling activities at December 31, 1976 is as follows:

	Total		United States		Foreign	
	Gross	Net	Gross	Net	Gross	Net
Wells capable of producing						
Single completions	42,296	14,607	35,752	13,051	6,544	1,556
Multiple completions	1,163	810	946	705	217	105
	43,459	15,417	36,698	13,756	6,761	1,661
Wells in process of drilling	201	142	182	131	19	11
Waterfloods in process of installation	6	3	5	2	1	1
Pressure maintenance operations						
Water injection method	11,482	2,616	10,552	2,498	930	118
Other methods	1,685	684	1,402	587	283	97

Gross wells represent the total number of wells in which all or part of the working interest is owned by the Company. Net wells represent only that part of the working interest applicable to the Company, that is, the sum of all fractional parts.

In addition to the gross and net acreage on page 46 of the Five-Year Financial and Statistical Summary, the Company had approximately 155 million gross acres and 95 million net acres of non-producing properties in Japan, Indonesia, Australia and other foreign locations. The Company is currently conducting preliminary exploration on some of this acreage and the cost of maintaining these total holdings is minimal.

As of December 31, 1976, the great number of leases for undeveloped acreage held in the U.S. significantly reduces the possibility of the expiration of any holding or group of holdings having a significant impact on the Company's domestic acreage position. The remaining terms of foreign leases and concessions, including Canada, vary from one month to ten years and before the expiration of certain leases and concessions the Company may take various stipulated actions to insure their renewal.

Item 4. Parents and Subsidiaries

In accordance with the provisions of General Instruction H, information is not included for this item as it is not materially changed from Item 4 in the Company's Form 10-K Report for the fiscal year ended December 31, 1975.

Item 5. Legal Proceedings

In accordance with the provision of General Instruction F, certain information in response to the requirements of this item is contained in Notes 10, 16 and 19 of Notes to Financial Statements which appears on pages 32, 36 and 38 of the accompanying 1976 Annual Report to Shareholders and is incorporated herein by reference.

Certain aspects of the use of Corporate funds for contributions, gifts, entertainment and other expenses related to political activity are under investigation by the Internal Revenue Service and certain other governmental agencies.

During 1975, nine derivative actions were filed by shareholders on behalf of the Company. Eight of these have been consolidated for purposes of pre-trial proceedings, discovery and trial in the United States District Court for the Western District of Pennsylvania as William Shlensky, et al., v. B. R. Dorsey, et al., Civil Action No. 75-377.

The eight derivative actions which were consolidated on January 16, 1976 had been filed in five separate United States District Courts during 1975 (Western District of Pennsylvania (4), District of Massachusetts, Southern District of New York, Eastern District of New York and Southern District of Texas). The Consolidated Amended Complaint filed on February 16, 1976 in these actions (the "Complaint") names as defendants certain present and former Directors and Officers of the Company, a former Officer of a subsidiary which has been liquidated, and the Company's independent accountants, Price Waterhouse & Co. On June 3, 1976, one of the defendants filed a crossclaim against the other defendants asserting a right to contribution and indemnification from the other defendants in the event that plaintiffs are able to prove any of the allegations in the Complaint. In the Complaint claims are asserted for alleged violations of Sections 10(b), 13(a), 14(a) and 16(b) of the Securities Exchange Act of 1934 and Rules thereunder and for alleged waste of corporate assets. Although there are varying allegations and claims for relief against different defendants, generally the Complaint alleges that since 1960 the individual defendants were responsible for the unauthorized disbursement of more than $12 million of corporate funds for unlawful political contributions and other similar unlawful purposes in the United States and abroad, and that the disbursements were concealed by means of false entries in the books of the Company and its subsidiaries, with the result that reports filed with the Securities and Exchange Commission and proxy statements disseminated during this period were false and misleading. The Complaint alleges that the Company's independent accountants "knew or should have known, or suspected," that such irregularities existed, and that they aided in the concealment of such matters by allegedly failing to conduct a proper audit or to disclose matters allegedly known to them. The Complaint further alleges that excessive compensation was paid to Directors and Officers of the Company; that the provisions of the Company's 1974 Stock Option Plan were breached by granting options in November 1974 and rescinding certain stock options previously granted at a higher option price, at an alleged cost to the Company of approximately $4 million; that the granting of options in November 1974 represented an attempt to reward and/or silence certain officers and directors who allegedly knew of the use of corporate funds for political purposes and thereby to perpetuate the cover-up of such activities; that the provision in the Company's 1974 Stock Option Plan which permits the grant of stock appreciation rights is unlawful; that the election of Directors be set aside and voided; and that the settlement and dismissal in 1974 of a derivative action brought on behalf of the Company by the Project on Corporate Responsibility, Inc. and others to recover fines and expenses incurred by the Company as a result of unlawful political contributions was fraudulent and constituted a waste of corporate assets and an attempt to conceal the Company's unlawful political contributions. On behalf of the Company, plaintiffs seek damages, rescission of stock options granted in November 1974, elimination of provisions for stock appreciation rights in the 1974 Stock Option Plan and a variety of equitable remedies.

The amended complaint in the separate derivative action, Shlensky v. B. R. Dorsey, et al., filed in the Court of Common Pleas of Allegheny County, Pennsylvania on December 4, 1975, names as defendants certain Directors and Officers of the Company and contains allegations similar to allegations set forth in the Consolidated Amended Complaint. On behalf of the Company, plaintiff seeks damages of at least $13.1 million, plus interest, and punitive damages of $13.1 million and also seeks rescission of certain stock options plus a variety of equitable remedies.

Notice of a proposed compromise and settlement (the "Proposed Settlement") of the nine derivative actions described above was given to all shareholders of record as of the close of business on September

1, 1976. A copy of such notice (the "Notice of Proposed Settlement") is filed as Exhibit 4 hereto and incorporated herein by reference. The Proposed Settlement applies to all of the defendants in the nine derivative actions except Price Waterhouse & Co. (the "Settling Defendants"). Price Waterhouse & Co. did not participate in the Proposed Settlement. On November 19, 1976, the United States District Court for the Western District of Pennsylvania approved the Proposed Settlement. Two shareholders have filed notices of appeal from the Court's order approving the Proposed Settlement. On November 19, 1976, the Court also granted the motion of Price Waterhouse & Co. to dismiss the Consolidated Amended Complaint as to it. A notice of appeal has been filed by certain plaintiffs with respect to the granting of such motion.

Under the terms of the Proposed Settlement, (i) certain former Officers, one of whom had also been a Director of the Company, agree not to contest the actions of the Board of Directors rescinding certain stock option rights previously granted to them and denying incentive compensation to them for 1975, (ii) certain other former Officers and Directors and certain present and former employees agree to the relinquishment of certain benefits under various employee plans and (iii) the insurance carrier under the Company's basic policy of directors' and officers' liability and corporate reimbursement insurance agrees to make a cash payment to the Company of $2 million, and the Company and the Settling Defendants who might be covered by that policy will release the insurance carrier from any further liability to them under the policy based on or arising from the Matters Settled (as defined below). The Proposed Settlement also provides that the Company agrees (a) to release each of the Settling Defendants from all liabilities with respect to the matters which were alleged by the plaintiffs in the derivative actions and related matters, including claims arising out of or related to matters contained in the Report, dated December 30, 1975, of the Special Review Committee appointed by the Company's Board of Directors in 1975 (the "Matters Settled"), (b) to indemnify each of the Settling Defendants, except Claude C. Wild, Jr. and William C. Viglia, against any claim arising out of the Matters Settled, and (c) to reimburse each of the Settling Defendants, except Wild and Viglia, for his reasonable legal expenses, including counsel fees, incurred in the defense of or related to the Matters Settled. The Proposed Settlement also provides that the Company and the Settling Defendants who are not Directors of the Company would not oppose an application by plaintiffs' counsel for payment to them by the Company of fees and expenses in an aggregate amount of approximately $625,000. Reference is made to the Notice of Proposed Settlement for a more complete description of the terms of the Proposed Settlement referred to above, as well as a description of additional terms of the Proposed Settlement.

The Project on Corporate Responsibility, Inc. et al., v. Gulf Oil Corporation, et al., Civil Action No. 74-493, pending in the United States District Court for the District of Columbia is a shareholder derivative action which names as defendants certain present Directors and certain former Officers and Directors of the Company. The action had been dismissed in 1974 pursuant to a compromise and settlement stipulation. On the consent of the parties in that action, the order approving the compromise and settlement was vacated in 1976 by the Court because the Company's shareholders had not been notified of the compromise and settlement. In the Second Amended Complaint, dated February 7, 1977, plaintiffs make various allegations relating principally to the circumstances surrounding the rehiring of Claude C. Wild, Jr., a former Officer of the Company, for a period of eight months in 1974-1975. Plaintiffs request that the Court declare that certain of the defendants engaged in a planned scheme to defraud the Company, its shareholders and the Court, that certain of the defendants and their agents pay to the Company certain amounts related to the rehiring of Mr. Wild and the 1974 compromise and settlement, as well as punitive damages in excess of $500,000.

Item 6. Increases and Decreases in Outstanding Securities

(a) Title of Class—Capital Stock (without par value)

	Number of Shares
Shares outstanding at January 1, 1976	194,710,185
Shares issued:	
Under terms of incentive compensation plan on January 6, February 19 and October 5, 1976	24,510
Upon exercise of stock options from July 12 through December 16, 1976	5,700
Upon settlement of stock appreciation rights from April 29 through December 27, 1976	123,745
Shares outstanding at December 31, 1976	194,864,140

(b) Unregistered Sales of Securities under Section 4(2)

On March 15, 1976, the Company guaranteed a $10 million loan to Lion Oil Company, an unaffiliated company, by The First National Bank of Chicago. Under the terms of the note evidencing the loan, the interest rate will float above the prime rate of the Bank with repayment of the loan to be made in quarterly installments from July 12, 1976 through April 12, 1986.

On August 24, 1976, the Company guaranteed $71 million of 8¾% Promissory Notes, due December 1987, issued by CLP Corporation, an affiliate of the Company, to Metropolitan Life Insurance Company.

On September 22, 1976, the Company guaranteed 25 percent of a loan from Metropolitan Life Insurance Company to Oklahoma Nitrogen Company, a partnership in which the Company holds a 25 percent interest. Under the terms of the loan agreement, Oklahoma Nitrogen Company may borrow at an interest rate of 8% per annum, up to $90 million, which is to mature on December 31, 1978.

At December 31, 1976, the Company had guaranteed debt of subsidiaries, in the amount of $85 million, which amount is reflected in the Company's long-term debt. In addition, the Company had guaranteed total debt of associated companies in the amount of $61 million, and the debt of owners of service stations and others in the amount of $137 million.

None of the securities issued in the transactions described in this Item 6(b) were registered under the Securities Act of 1933 in reliance upon the exemption contained in Secton 4(2) of such Act. Such securities have not been legended and stop-transfer instructions have not been issued.

Item 7. Approximate Number of Equity Security Holders

As at February 11, 1977

Title of Class	Number of Record Holders
Capital Stock (without par value)	361,415

Item 8. Executive Officers of the Registrant

The age, present Corporate office and business experience, including all positions held concurrently or successively in each of the past five years by each of the Company's Executive Officers and by certain division and subsidiary company Executive Officers are reported below. The Company's By-Laws provide that the Company's Officers may be removed from office at any time by the Board of Directors.

Jerry McAfee—Age 60; Chairman of the Board and Chief Executive Officer since January 1976.
1972—President and Chief Executive Officer, Gulf Oil Canada Limited.

James E. Lee—Age 55; President and Director since 1973.
1972—Executive Vice President, Gulf Oil Corporation.

Z. D. Bonner—Age 58; Chairman, Gulf Oil Chemicals Company since 1975; Director since 1974.
1972—President, Gulf Oil Chemicals Company; 1973—President, Gulf Oil Company-U.S.; 1973—Executive Vice President, Gulf Oil Corporation.

Edward B. Walker, III—Age 55; President, Gulf Energy & Minerals Company since 1975; Director since 1974. 1972—Executive Vice President, Gulf Oil Corporation.

Robert W. Baldwin—Age 55; Chief Executive Officer, Gulf Refining & Marketing Company since 1975.
1972—General Operations Manager, Kuwait Oil Company; 1973—Executive Vice President, Gulf Oil Company-Latin America; 1973—President, Gulf Energy & Minerals Company.

Charles A. Boyce—Age 47; Secretary and Associate General Counsel since March 1976.
1972—Tax Counsel; 1975—Assistant General Counsel and Tax Counsel.

Gerald W. Bush—Age 39; Senior Vice President since 1975.
1972—Director, Mayor's Office of Commerce and Manpower, City of Boston. (Mr. Bush was responsible for industrial development and all federally funded manpower programs in the City of Boston); 1975—Executive Director, Gulf Management Institute.

Herbert I. Goodman—Age 53; President, Gulf Trading & Transportation Company since 1975.
1972—President, Gulf Oil Trading Company.

Harold H. Hammer—Age 56; Executive Vice President since 1973.
1972—Senior Vice President, Gulf Oil Corporation.

Pierre E. Holloway—Age 49; Senior Vice President since 1974.
1972—Vice President-Corporate Planning and Economics.

Z. Q. Johnson—Age 53; President, Gulf Science & Technology Company since 1975.
1972—Executive Vice President, Gulf Oil Corporation.

Juergen Ladendorf—Age 43; Senior Vice President since 1975.
1972—Chairman of the Board and Chief Executive Officer-Management Decision Analysis, Inc. (Mr. Ladendorf was responsible for strategy formulation and overall direction of the business activities of the corporation.)

Merle E. Minks—Age 59; General Counsel since 1969.

William P. Moyles—Age 46; President and Chief Executive Officer, Gulf Oil Real Estate Development Company since January 1977. 1972—Vice President, Corporate Growth, Control Data Corporation; 1973—Vice President, Corporate Development, Gulf Oil Corporation; 1976—President, Gulf Oil Real Estate Development Company.

James L. Murdy—Age 38; Vice President and Comptroller since 1974.
1972—Controller, Occidental Petroleum Corporation; 1973—Vice President-Finance, Equity Funding Corporation of America. (Mr. Murdy joined Equity Funding as chief financial officer to assist the court appointed trustee in Equity Funding's reorganization proceedings.)

Jayne Baker Spain—Age 53; Senior Vice President since January 1976.
1972—Vice Chairman, U.S. Civil Service Commission. (Mrs. Spain assumed this position by Presidential appointment and Senate confirmation, and was responsible for personnel policy and implementation.)

Paul H. Weyrauch—Age 51; Treasurer since 1972.

Item 9. Indemnification of Directors and Officers

Section 410 of the Business Corporation Law of the Commonwealth of Pennsylvania provides that a corporation (1) may indemnify its directors and officers against certain amounts incurred in connection with the defense of (a) certain civil actions, suits or proceedings if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of such corporation and, with respect to such action by or in the right of the corporation, (with certain exceptions) he is not adjudged to be liable for negligence or misconduct in the performance of his duties to such corporation and (b) certain criminal actions, suits or proceedings if he had no reason to believe his conduct was unlawful and (2) shall indemnify any such person against expenses (including attorney's fees) actually and reasonably incurred in any such action, suit or proceeding if he is successful in his defense thereof. Section 410 permits a corporation to pay such expenses in advance of the final disposition of an action, suit or proceeding if such payment is authorized in the manner provided by the statute and if the corporation receives an undertaking by or on behalf of the director or officer to repay the advances unless it is ultimately determined that he is entitled to be indemnified by the corporation.

A copy of Section 410 is filed as Exhibit 2 hereto and incorporated herein by reference thereto and the foregoing brief description of such Section is qualified in its entirety by reference to such Exhibit.

Article VI of the By-Laws of the Company as adopted by the Board of Directors on December 14, 1976 contains provisions for indemnification of directors and officers which are the same in all essential respects as Section 410 of the Business Corporation Law of the Commonwealth of Pennsylvania. A copy of Article VI of the By-Laws of the Company is filed as Exhibit 1 hereto and incorporated herein by reference. The foregoing summary of Article VI is qualified in its entirety by reference to such Exhibit.

Pursuant to Section 410, the Board of Directors of the Company has established a procedure to be followed by Directors and Officers of the Company who wish to request advances for expenses incurred in defending the actions described in paragraphs 3 through 7 of Item 5 herein and certain other actions, suits and proceedings. Under such procedure, requests for advances, which must be accompanied by the repayment undertaking specified in Section 410, are reviewed by independent outside legal counsel for the Company, who is asked to determine whether or not such advances are proper in the circumstances. If such legal counsel determines that such advances are proper in the circumstances, the requests for advances are to be submitted to the Company's Board of Directors, which may deny the request by action of a majority of the Directors.

Since June 7, 1974 the Company has had a policy of directors and officers liability insurance, a copy of which is filed as Exhibit 8(a) hereto and incorporated herein by reference thereto. The insurance policy is a two-part policy which, subject to limits and retentions set forth in the policy, covers (i) losses that may be incurred by the Directors and certain Officers of the Company and its subsidiaries as a result of

any wrongful acts while acting in their individual or collective capacities as Directors or Officers; and (ii) payment on behalf of the Company of amounts which the Company may be required or permitted to pay as indemnification to Directors and certain Officers of the Company and its subsidiaries. The term "wrongful act" is defined, with certain exclusions, as any actual or alleged error or misstatement or misleading statement or act of omission or neglect or breach of duty by the Insureds while acting in their individual or collective capacities. The maximum combined coverage under this basic policy and three related excess policies, filed as Exhibits 8(b), 8(c) and 8(d) hereto and incorporated herein by reference thereto, was $25 million per policy year at December 31, 1976.

Reference is made to paragraph 7 of Item 5 for information concerning indemnification of certain Directors and Officers of the Company and limitations with respect to claims under the basic insurance policy described in the preceding paragraph provided for in a proposed settlement of certain shareholder derivative actions.

Item 10. Financial Statements and Exhibits

(a) The 1976 and 1975 financial statements appearing on pages 25 through 43 of the accompanying 1976 Annual Report to Shareholders together with the report thereon of Price Waterhouse & Co. dated February 23, 1977 appearing on page 24 and, as indicated under Items 1 through 3, the five-year financial and statistical summaries appearing on pages 44 through 49 and the annual and quarterly earnings discussion on page 22 of the accompanying 1976 Annual Report to Shareholders are incorporated in this Form 10-K Annual Report by reference. The information appearing on pages 2 through 21 and 23 and 24, except for the report of Price Waterhouse & Co., and on pages 64 and 65 of the accompanying 1976 Annual Report to Shareholders is not deemed to be filed as part of this Form 10-K Annual Report. The report of Price Waterhouse & Co. is based in part on the report of Clarkson, Gordon & Co. dated February 8, 1977 appearing on page 63.

The financial statements and schedules of the Registrant have been omitted as the Registrant is primarily an operating company and together with totally held subsidiaries meets the requirements as to revenues and assets.

All other schedules have been omitted as they are either not applicable, not required, not significant, or the required information is given in the financial statements or notes.

(b) Exhibits*

1. Article VI of the By-Laws of the Company as adopted on December 14, 1976.
2. Section 410 of the Business Corporation Law of the Commonwealth of Pennsylvania.
3. The Pension Plan of Gulf Oil Corporation reflecting all amendments adopted in 1976.
4. Notice of Proposed Compromise and Settlement of Shareholders' Derivative Actions and of a Settlement Hearing, dated September 30, 1976.
5. (a) Purchase Sale Agreement dated January 1, 1976 between Petroleos de Venezuela and Trans-ocean Gulf Oil Company, a subsidiary of the Company.
   (b) Technical Assistance Agreement dated January 1, 1976 between Mene Grande Oil Company, a subsidiary of the Company, and Petroleos de Venezuela.
6. (a) Technical Assistance Agreement between Global Energy Operations and Management Co., Ltd., a subsidiary of the Company, and Kuwait Oil Company (K.S.C.) dated January 17, 1976.
   (b) Crude Oil Supply Agreement dated March 24, 1976 between the Ministry of Oil of the Government of Kuwait and Gulf Kuwait Company, a subsidiary of the Company.
7. Participation Agreement Assignment dated February 26, 1976 between Gulf Oil (Great Britain) Limited, Gulf Oil Corporation, The British National Oil Corporation and the Secretary of State for Energy relating to title to licenses for oil and gas production in the North Sea.
8. The following Directors and Officers Liability and Company Reimbursement Liability Policies as amended to December 31, 1976 by endorsements thereto other than those which change the individual named Insureds:
   (a) Crum & Forster Policy No. DOL 2053 dated June 7, 1974;
   (b) Crum & Forster Insurance Company's Certificate of Excess Insurance No. XS 4128 dated March 9, 1976;
   (c) Lloyd's Policy No. 501/B7613545(a) dated October 7, 1976; and
   (d) Companies Collective Policy No. 501/B7613545(b) dated December 14, 1976.

*Note to Shareholders: A copy of these Exhibits is available at a fee of $3.00 per document to any shareholder upon written request to the Secretary, Gulf Oil Corporation, P.O. Box 1166, Pittsburgh, Pennsylvania 15230.

PART II

In accordance with the provisions of General Instruction H, information for Items 11 through 15 is omitted because prior to April 30, 1977 the Company expects to have filed with the Commission, pursuant to Regulation 14A, a definitive Proxy Statement involving the Election of Directors at its 1977 Annual Meeting.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report to be signed on its behalf by the undersigned thereunto duly authorized.

GULF OIL CORPORATION
(Registrant)

By J. L. Murdy
Vice President and
Comptroller

February 23, 1977

Supplemental Schedules

Properties (SEC Schedule V)

Millions of Dollars—Years Ended December 31, 1976 and 1975

Classification	Balance at beginning of period	Additions at cost	Deductions: Retirements or sales	Deductions: Transfers and reclassi-fications	Balance at close of period
1976					
Petroleum					
Exploration and development	$ 5,408	$ 744	$ 441	$53	$ 5,658
Marketing	1,667	84	112	14	1,625
Refining	1,864	101	38	—	1,927
Transportation	1,023	121	104	(4)	1,044
Natural gas liquids	391	38	8	(7)	428
Other	145	28	1	7	165
	10,498	1,116	704	63	10,847
Chemicals	915	150	4	7	1,054
Minerals	364	70	2	11	421
Other	109	26	2	(20)	153
	$11,886	$1,362	$ 712	$61	$12,475
1975					
Petroleum					
Exploration and development	$ 5,602	$ 491	$ 662	$23	$ 5,408
Marketing	1,745	95	168	5	1,667
Refining	1,856	73	58	7	1,864
Transportation	1,069	102	163	(15)	1,023
Natural gas liquids	381	27	23	(6)	391
Other	66	61	3	(21)	145
	10,719	849	1,077	(7)	10,498
Chemicals	710	212	8	(1)	915
Minerals	304	59	—	(1)	364
Other	112	11	8	6	109
	$11,845	$1,131	$1,093	$(3)	$11,886

Accumulated Depreciation, Depletion and Amortization of Properties (SEC Schedule VI)

Millions of Dollars—Years Ended December 31, 1976 and 1975

Classification	Balance at beginning of period	Additions charged to income	Deductions		Balance at close of period
			Retirements	Transfers and reclassifications	
1976					
Petroleum					
Exploration and development	$ 2,922	$ 314	$ 271	$ 1	$ 2,964
Marketing	657	83	71	1	668
Refining	931	69	14	—	986
Transportation	420	51	63	—	408
Natural gas liquids	211	21	6	—	226
Other	30	12	2	4	36
	5,171	550	427	6	5,288
Chemicals	310	39	3	—	346
Minerals	110	34	1	—	143
Other	59	8	1	—	66
	$ 5,650	$ 631	$ 432	$ 6	$ 5,843
1975					
Petroleum					
Exploration and development	$ 3,148	$ 323	$ 549	$—	$ 2,922
Marketing	695	84	118	4	657
Refining	916	71	55	1	931
Transportation	412	50	46	(4)	420
Natural gas liquids	204	20	15	(2)	211
Other	18	10	2	(4)	30
	5,393	558	785	(5)	5,171
Chemicals	277	37	4	—	310
Minerals	82	26	(1)	(1)	110
Other	58	7	5	1	59
	$ 5,810	$ 628	$ 793	$(5)	$ 5,650

Supplementary Income Statement Information (SEC Schedule XVI)

Millions of Dollars—Years Ended December 31, 1976 and 1975

	Charged to expenses	
	1976	1975
Maintenance and repairs	**$ 384**	$ 351
Rents	**$ 231**	$ 268

REPORT OF CLARKSON, GORDON & CO.

To the Directors of
Gulf Oil Canada Limited:

We have examined the consolidated balance sheets of Gulf Oil Canada Limited and subsidiary companies as at December 31, 1976 and 1975, and the consolidated statements of income, shareholders' equity, and changes in financial position for the years then ended. These financial statements, prepared for inclusion in the consolidated accounts of Gulf Oil Corporation, are expressed in United States dollars following the basis of translation from Canadian dollars set out in the notes thereto. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements (not shown separately herein) present fairly the financial position of Gulf Oil Canada Limited and subsidiary companies as at December 31, 1976 and 1975, and the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.

Toronto, Canada
February 8, 1977

CLARKSON, GORDON & CO.
Chartered Accountants

PRINCIPAL CORPORATE OFFICERS

Jerry McAfee
Chairman of the Board and Chief Executive Officer

James E. Lee
President

Harold H. Hammer
Executive Vice President

Gerald W. Bush
Senior Vice President

Pierre E. Holloway
Senior Vice President

Juergen Ladendorf
Senior Vice President

Jayne Baker Spain
Senior Vice President

Merle E. Minks
General Counsel

Charles A. Boyce
Secretary and Associate General Counsel

James L. Murdy
Vice President and Comptroller

Paul H. Weyrauch
Treasurer

OTHER CORPORATE OFFICERS AND OFFICIALS

Ben C. Ball
Vice President, Planning Research

G. M. Binegar
Vice President, Human Resources

L. H. Bonin, Jr.
Vice President, Executive Director Washington Office

M. P. Breaux
Vice President, Industrial Relations

R. T. Brown
Vice President, Planning Operations

Nicholas J. Covatta, Jr.
Vice President, Strategy Development

O. J. McGill
Vice President, General Auditor

W. E. Moffett
Vice President, Public Affairs

Jack H. Morris
Vice President, Financial Relations

F. W. Standefer
Vice President, Tax Administration

G. K. Thompson
Vice President, Executive Representative, New York

A. Lewis, Jr.
President, Gulf Oil Foundation

PRINCIPAL DIVISIONS AND SUBSIDIARY COMPANIES

GULF ENERGY & MINERALS COMPANY
Houston, Texas

Edward B. Walker, III
President and Chief Executive Officer

L. A. Ramsey
President
Gulf Energy & Minerals Company-U. S.

M. J. Hill
President
Gulf Energy & Minerals Company-International

T. D. Lumpkin
President
Gulf Oil Company-Latin America

R. J. Goeken
President
Gulf Mineral Resources Company

V. D. Stone
President
Keydril Company

GULF REFINING & MARKETING COMPANY
Houston, Texas

R. W. Baldwin
President and Chief Executive Officer

E. F. Eisemann, Jr.
Executive Vice President
Gulf Oil Company-U. S.

T. G. Harper
Executive Vice President
Gulf Oil Company-U. S.

A. G. Smith
Executive Vice President
Gulf Oil Company-U. S.

N. G. Pignatelli
President
Gulf Oil Company-International

GULF OIL CHEMICALS COMPANY
Houston, Texas

Z. D. Bonner
Chairman and Chief Executive Officer

W. C. Roher
President

GULF OIL CANADA LIMITED
Toronto, Canada

C. D. Shepard
Chairman and Chief Executive Officer

J. L. Stoik
President

GULF TRADING & TRANSPORTATION COMPANY
Pittsburgh, Pennsylvania

Herbert I. Goodman
President and Chief Executive Officer

S. L. Sugarman
Executive Vice President

GULF SCIENCE & TECHNOLOGY COMPANY
Pittsburgh, Pennsylvania

Z. Q. Johnson
President and Chief Executive Officer

H. A. LaRue
Executive Vice President

GULF OIL REAL ESTATE DEVELOPMENT COMPANY
Reston, Virginia

William P. Moyles
President and Chief Executive Officer

Seated, left to right: Beverley Matthews, Sister Jane Scully, Jerry McAfee, James E. Lee and Nathan W. Pearson; *standing, left to right:* George Kozmetsky, Z. D. Bonner, James M. Walton, Edward B. Walker, III, Charles M. Beeghly, James H. Higgins, R. Hal Dean and Edwin Singer.

BOARD OF DIRECTORS

Jerry McAfee (3)
Chairman of the Board and Chief Executive Officer Gulf Oil Corporation

James E. Lee (3)
President Gulf Oil Corporation

Charles M. Beeghly (1)(4)
Retired Chairman of the Board and Chief Executive Officer Jones & Laughlin Steel Corporation

Z. D. Bonner
Chairman Gulf Oil Chemicals Company

R. Hal Dean (4)
Chairman of the Board and Chief Executive Officer Ralston Purina Company

James H. Higgins (1)
Chairman of the Board and Chief Executive Officer Mellon Bank, N.A. and Mellon National Corporation

George Kozmetsky (1)(2)
Dean, Graduate School of Business and College of Business Administration The University of Texas at Austin

Beverley Matthews (4)
Senior Partner, law firm McCarthy & McCarthy, Toronto, Canada

Nathan W. Pearson (1)
Financial Advisor Paul Mellon Family Interests

Sister Jane Scully (2)(4)
President Carlow College

Edwin Singer (4)
Partner Whitcom Investment Company

Edward B. Walker, III
President Gulf Energy & Minerals Company

James M. Walton (1)(2)
President Carnegie Institute and Carnegie Library of Pittsburgh

---

(1) Member of Audit Committee; Mr. Higgins, Chairman

(2) Member of Business Principles Committee; Mr. Walton, Chairman

(3) Member of Directors' Fee Committee; Mr. McAfee, Chairman

(4) Member of Human Resources Committee; Mr. Matthews, Chairman

---

CORPORATE OFFICES

Gulf Oil Corporation
P.O. Box 1166
Pittsburgh, Pennsylvania 15230
Telephone: (412) 263-5000

TRANSFER AGENTS

Bankers Trust Company, New York
The First National Bank of Chicago
Mellon Bank, N.A., Pittsburgh
Canada Permanent Trust Company, Toronto

REGISTRARS

Bankers Trust Company, New York
The First National Bank of Chicago
Pittsburgh National Bank
Montreal Trust Company, Toronto

GULF OIL CORPORATION
P.O. BOX 1166
PITTSBURGH, PENNSYLVANIA 15230